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THE ROUND TABLE

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Sept. 1948

A QUARTERLY REVIEW OF THE POLITICS
OF THE BRITISH COMMONWEALTH

Contents of Number 149

THE LORDS

DOES RUSSIA MEAN WAR?

THE PLIGHT OF THE CONQUERED
CENTRIFUGAL FORCES IN FRANCE

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RESIGNING THE MANDATE

THE DOMINION OF CEYLON

AMERICA'S FAITH IN EUROPE

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THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS
OF THE BRITISH COMMONWEALTH

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THE LORDS

REVIVAL OF AN OLD CONTROVERSY

THE government of the United Kingdom of Great Britain and Northern Ireland is vested in King, Lords and Commons. If the question is asked on what authority this statement rests, the only possible answer is that a series of pronouncements by King, Lords and Commons have declared it to be so. By custom, which is the result of a long process of historical development, the Courts recognize as law all that is enacted by this combination of potencies, and admit nothing as law that has not their consent; and the people hold themselves bound to obey only such laws as are recognized by the Courts.

Since it became usual to describe the British Constitution as "democratic", which is scarcely before the beginning of the present century, there has been a tendency to regard the foregoing description as little more than a legal technicality, and to place the real sovereignty in the will of the people, which in turn is interpreted as the vote of a majority. But supposing that one of those energetic organizations which arrange ballots in favour of universal peace or compulsory observance of the Sabbath could induce even a very large majority of the electorate to vote that John Doe should be national dictator with universal powers of life and death, or that Richard Roe should be parish clerk of Nether Wallop, neither John Doe nor Richard Roe would thereby become entitled to interfere in the smallest degree in the affairs of his fellow subjects. If an equally imposing majority should vote for the imposition of a speed limit of five miles an hour on the roads, no motorist would in consequence be required to interrupt his lethal career. The State acts only by authority expressed in the accustomed forms, and in giving that authority King, Lords and Commons must all play their parts.

Now since the combined authority of these three elements constitutes the final sovereignty of the realm, it follows that the distribution of powers between the three elements must be determined, and if necessary altered from time to time, by negotiation between the three participants themselves. This is what we mean by saying that we have no written constitution. In the political systems most nearly resembling those of the United Kingdom, such as those of the self-governing Dominions, the United States of America and the French Republic, the terms of collaboration between the two legislative chambers (and in the British cases the Crown as well) are laid down in a State document which they cannot amend by the ordinary processes of legislation. Consequently the Second Chambers set up and regulated by all these constitutions differ fundamentally from the House of Lords, the nature and operation of whose function in the State is easily misunderstood by those who dwell under written constitutions. The authority of the House of Lords, like that of Parliament as a whole, rests ultimately upon custom, and can only be understood in the light of history, out of which custom is distilled.

Although the present importance of the House of Lords is rightly estimated by calling it the Second Chamber, its character is mainly influenced by the fact that historically it is the First. Contemptuous as the "progressive" politician may be of what he calls a "feudal" anachronism, it is the fact that Parliament itself owes its existence to two fundamental principles of the feudal system. The first is that, while it is for the King to govern, he must take no important step without consulting his principal vassals. The second depends upon the characteristic feudal assumption that government is normally supported not by taxation but by endowment. If the King's expenses in government become so heavy that he cannot "live of his own", he must seek financial help from his subjects, which is abnormal, and therefore must be got by negotiation. So arises the second feudal principle, that when the common need calls for it the community, and at first each group or estate in the community, should tax itself.

Parliament came into being in the second half of the thirteenth century as an instrument for applying these principles. At first the King gathered round him from time to time, for the purpose of asking advice and financial help, a small group of the most important persons in the land. But as society became more complex, new social groups, such as the merchant corporations of the towns, established a right to be also considered important; and their growing wealth led the Crown to turn to them with the request that they should tax themselves for the public good. So there came into Parliament collective entities, which could only attend through representatives instead of in person; and during the fourteenth century these representatives of communities developed the habit of sitting as the House of Communes or Commons, apart from the magnates who were individually summoned. In the same period, therefore, there begins to be discernible a separate House of Lords, consisting of the bishops, the earls, and those powerful individuals whose personal importance made it essential for them to take part in the general council of the realm. This House of Lords, in the conditions of an aristocratic society, was for long much more important than the Commons. Nevertheless, as the system declined whereby lords spiritual, lords temporal and corporations made separate grants of taxation, and the custom of taxing the whole country on the same basis superseded it, it became gradually accepted that the Commons should take the lead in matters of supply. Indeed, as early as the reign of Henry IV they asserted the doctrine that motions involving taxation should be first moved in their House.

The Hereditary Principle

THE original reason for individually summoning to the House of Lords a man who was neither an earl nor a bishop was his personal influence, which normally depended upon his tenure of great estates. But as estates passed from father to son, the heir of a lord who had sat in one generation would constantly be himself summoned in the next. In the fifteenth century there grew up the custom of issuing letters patent which entailed a seat in the House upon the heirs of the sitting lord; and in the sixteenth and seventeenth

the peers finally established the doctrine that, apart from the bishops, their House was confined to persons holding hereditary rank. In the leading case of *Lord Wensleydale* in 1856 they laid down in terms that the Crown no longer possessed any power to summon a layman to the House for his own life only.

Meanwhile the ancient element of non-hereditary lords steadily dwindled in relative strength. In the pre-Reformation House earls and barons were comparatively few, and the spiritual lords, who included, in virtue of their position as landlords, the greater abbots as well as the bishops, usually had a majority. The dissolution of the monasteries removed the abbots and changed the balance. Since then the lay peerage has steadily increased, while the number of bishops has remained almost constant. When new sees were created in the nineteenth century the spiritual representation was finally limited to 26, which is numerically insignificant.

Down to the outbreak of the quarrel between the Stuart kings and their Parliament the House of Lords was still decidedly the more important chamber. But the constitutional crisis turned so largely upon the question of the money power that the more Parliament prevailed against the King the more the House of Commons, which had the initiative in taxation, increased its relative influence within Parliament. By the time of the Restoration in 1660 it had become conventional that the House of Lords would not normally interfere with financial Bills; and although it was mainly the Lords that carried through the Revolution of 1688, the reign of William III, in which the Commons established close control over the Treasury, shifted the balance of power decisively in their favour. From the time of Queen Anne parliamentary control of government is clearly seen to depend on the power to withhold supply; and since this power is vested in the Commons, Ministers are responsible to that House in a sense in which they are not responsible to the House of Lords. It is significant of the changing times that Sir Robert Walpole, who chiefly consolidated the position of what we now call the Prime Minister, sat throughout his long active career in the Lower House.

For two hundred years from Sir Robert Walpole's time the essential balance between the Houses shifted but slightly. It was accepted that the House of Commons alone could make and unmake Ministries; the House of Commons, subject to criticism rather than active interference by the House of Lords, controlled taxation; but the two Houses were still equal partners in the process of making and unmaking laws. Throughout the eighteenth century any large divergence between the two Houses was made improbable by the fact that the members of the House of Lords, through the great influence that the franchise system gave to landed property, controlled much of the membership of the House of Commons. The Reform Act of 1832 began the process that made the two Houses representative of fundamentally different classes in the community; and successive extensions of the franchise down to 1928 (when adult suffrage was finally conceded) have constantly widened the gap.

Nevertheless the present situation, in which the House of Lords has an

immense permanent majority of one party, which sometimes does and sometimes does not correspond to the complexion of the House of Commons, is of comparatively recent growth. Till far on in the reign of Queen Victoria the party cleavage in Parliament did not normally reflect a social division. Whigs and Tories were fairly evenly balanced in the House of Lords in the eighteenth century, and Liberals and Conservatives in the nineteenth. Party allegiance was determined more by political theory and temperament than by economic status; and popular movements expected and depended upon aristocratic leadership.

The Quarrel with the Liberals

IT was Mr. Gladstone's conversion to Irish Home Rule in the course of the Parliament of 1880 that changed the political atmosphere of the House of Lords. He forfeited almost the whole of his support in the Upper Chamber, and from that time onward the House of Lords had a permanent and overwhelming majority against the Liberal party. The first Home Rule Bill was rejected by the House of Commons in 1886; but in 1893 it was the combined forces of the Conservative and Liberal Unionist peers that threw out the second Home Rule Bill and ended Mr. Gladstone's political career. In the general election of 1895, however, the electorate confirmed the judgment of the House of Lords by returning Lord Salisbury to power; and it was not until the Liberals came back with an unprecedented majority in the House of Commons of 1906 that the quarrel between them and the Lords came to a head. By this time the Liberal Unionists had in effect coalesced with the Conservatives, and the great mass of the peers regarded the social legislation promoted mainly by Mr. Lloyd George as the portent of a revolution against which all the powers of their House, even powers for long dormant, must be invoked. For three years no Liberal measure against which the Opposition in the Commons voted on second reading passed the House of Lords. Finally, when Mr. Lloyd George introduced his plan for taxation of land values, the House of Lords took an action unknown for centuries and threw out the budget.

This step compelled an immediate dissolution, for the administration was left without the means of carrying on government. At the general election the Liberals fought on the cry "The Peers against the People"; and although their abnormal majority of 1906 was heavily reduced, they came back in sufficient strength to control the House of Commons, provided they could rely on the Irish Nationalist party. The Irish, who were opposed to the budget taxes on spirits, would only vote for the budget on receiving a promise that the Government would go on to curtail the powers of the House of Lords, in order that Home Rule might be passed despite their opposition.

The Lords, arguing that they had only rejected the land taxes in order to ascertain whether they were really in accordance with the wishes of the electorate, now accepted the budget. Then came the question of redeeming Mr. Asquith's pledge to the Irish. Since the laws defining the structure of Parliament are the rules under which the party contest is conducted, it has always been the constitutional convention that their amendment should be

undertaken, if in any way possible, only by agreement between the parties. Consequently a great part of the year 1910 was consumed in a conscientious attempt by Mr. Asquith and his colleagues to come to terms with the Conservatives, led in the House of Lords by Lord Lansdowne and in the Commons by Mr. Balfour. The gulf was too wide, for the rising passions over Home Rule and the coercion of Ulster, which in 1914 would bring Ireland and even England within sight of civil war, were already inflaming tempers; and it became evident that any constitutional amendment must be carried through by the strength of the Liberals alone. But the House of Lords had equal legal powers with the Commons and could reject any Bill presented for the curtailment of its own authority. It seemed certain that it would do so.

Now when complete deadlock arises between two assemblies with equal authority in the Constitution, it is obviously impossible to overcome it unless the composition of one or the other can be changed. The composition of the House of Commons can always be changed by dissolving it and electing another; and accordingly the first and normal way of overcoming deadlock between the Houses is by a general election. But supposing a general election returns a House of Commons no less opposed to the House of Lords than before, and the House of Lords still refuses to give way, the only remaining resource is to change the composition of the House of Lords. For this the intervention of the third element in the Constitution is required; but since the Government responsible to the House of Commons advises the Crown in the exercise of its prerogative, this can usually be secured. That is to say, new peers friendly to the Government can be created, sufficient in number to out-vote the existing majority in the Upper House. Because these new peers must be hereditary, the size of the House will be permanently enlarged; and therefore the step is one the Sovereign will be reluctant to take save in extreme emergency. Nevertheless the device was applied in 1713, when twelve Tory peers were created in order to secure the ratification of the Treaty of Utrecht; and in 1832, when it would have required the creation of some fifty Whig peers to out-vote the Tory majority against the Reform Bill, the threat of that drastic action induced the majority to give way. In 1910, when the number of peerages on the roll had increased to over 600 (there are now 800), the Conservative majority was so great that the Liberals would have required to ennoble at least 300 of their friends if they were to enforce their will.

The Passage of the Parliament Act

THE new King George V not unreasonably doubted whether it was constitutional to make at one stroke so vast an addition to the ranks of the hereditary peerage for the sake of securing the victory of one branch of his legislature over the other. When pressed by Mr. Asquith to promise the creation of the peers in the hypothetical case of the Lords' rejection of a Liberal Bill curtailing the powers of their House, he laid down two conditions. First, the proposed Bill must be introduced and the Lords given a chance to accept it; and if they did not, there must be a second general election fought on the specific issue of the limitation of their powers. If this

election confirmed the Government's mandate, then the Prime Minister was authorized to inform Parliament that he had the King's promise to create peers if necessary in sufficient numbers to compel the acquiescence of the House of Lords. Mr. Asquith fulfilled the conditions, introduced the Parliament Bill, and retained his majority at the general election following its rejection in the Lords. Faced with the threat of a wholesale creation of peers, the House of Lords eventually gave way and the Parliament Act of 1911 received the royal assent.

Under this Act the House of Lords surrendered altogether its power to reject money Bills, to amend them without the agreement of the Commons, or to delay their passage for more than one month. Other Bills might be rejected as before; but they could be presented again, and, if passed by the House of Commons in three successive sessions, not necessarily of the same Parliament but occupying not less than two years, would be given the royal assent notwithstanding a third rejection by the House of Lords. At the same time the maximum duration of a Parliament was reduced from seven years to five, with a proviso that it should not be further changed without the consent of both Houses.

In effect, therefore, a Government possessing the confidence of the House of Commons can now override the opposition of the House of Lords to any measure introduced during the first three years of the Parliament; but Bills introduced later can be delayed by the House of Lords until a time when a general election must be held and allow the electorate to express its opinion on them. This was felt at the time to be a reasonable settlement of the question of powers; for it is naturally towards the end of its term that the claim of a Government to be genuinely representative of public opinion is most likely to be challengeable. At the same time the bitter controversy attending the passage of the Act had thrown into relief the real weakness of the Lords. After the experience of thirty-six years at home and abroad we may feel even more acutely than our fathers in 1911 the necessity for including in the Constitution some delaying organ which can prevent that seizure of autocratic powers, by a party possessing at the moment the popular suffrage, on which the totalitarian system is founded. But in the temper of 1911, and certainly no less in the temper of 1947, it seemed anomalous that this organ should consist of a large body of men holding their position by hereditary right and nearly all associated with one party in the State. If the moral authority of the House of Lords was to be made commensurate with the task it undertook, its composition must be brought into harmony with the spirit of the age; and accordingly the preamble to the Parliament Act describes it as a provisional measure, pending the reconstruction of the House upon more popular lines. The House of Lords itself, by a resolution of 1910, advocated its own reform in such a way that nobody shall sit in it by hereditary right alone.

The Lords since 1911

THE question of the reform of the House, whether by the introduction of a nominated or an elected element, by the admission of women, or by the restriction of its membership to those peers who can qualify by a record

of important public service, has been raised several times since 1911, generally by Conservative peers. It has usually, however, been opposed by the Labour Party, who appear to think that the removal of the heavy adverse majority in the Second Chamber would be dearly bought by the increased popular prestige of the House itself. But the duty of governments to take the initiative has been consistently neglected, and the responsibility for failure to grapple with the problem is shared by all parties alike.

Meanwhile the business of the House of Lords is, in fact, carried on, not by the vast army of the so-called backwoodsmen, that is, the members qualified by nothing but their hereditary rank, but by a group of some seventy or eighty eminent public servants, who attend the House regularly and bring to bear upon legislation an immense collective experience of great affairs. The majority of them are peers by direct creation; those who have inherited their peerages have by their own exertions enhanced the honours bestowed upon their ancestors. Included in this body, the real working House of Lords, are ex-Governors-General of the great Dominions and ex-Governors from all parts of the dependent Empire; the most eminent of the judges (by a special statutory exception a limited number of "Lords of Appeal in Ordinary" sit in the House as peers for life); former Ministers, and others who have been promoted after long service in the House of Commons; officers who have commanded fleets and armies in world war; great industrialists; and, in fact, the outstanding men in every honourable profession. The bishops keep their places, but now generally confine their contributions to topics transcending party politics. A small number of members of the Government of the day are invariably present, if necessary being created peers for the purpose, since the privilege conferred upon Ministers by some Dominion constitutions, of speaking in either House as occasion requires, is not known in the United Kingdom. This select inner circle of the House of Lords maintains debates at a level certainly not inferior to that of the House of Commons; and subjects every Bill to an expert scrutiny which generally results in considerable improvement by way of detailed amendments of its clauses. The conscientious revision by the Lords even of measures which in substance must be distasteful to them has received high praise from spokesmen of the Labour Government up to the very eve of the introduction in the House of Commons of the Bill for further curtailing the powers of the Upper House.

This revising work has been the main occupation of the House of Lords ever since 1911. The delaying power remains in reserve, but has never been used since 1914, when the last struggle of the Lords to prevent the enactment of Irish Home Rule was overborne by the use of the Parliament Act.

The Parliament Bill of 1947

THE Bill proposed by Mr. Herbert Morrison in November of this year will have the effect of allowing the House of Commons to overrule the Lords in two sessions instead of three, and in one year instead of two. It has not been the purpose of this article to enter into detailed criticism of the policy of this measure, but rather to recall the historical background against which

it has to be judged. One or two comments, however, of a mainly constitutional character may be added in conclusion.

First, it is a well-established principle of British politics that Ministers should carry on the government by the use of the existing constitutional machinery. They should only ask for the Constitution to be changed if it has become manifestly impracticable to continue government within its forms, and even then they should seek agreement with the Opposition on the changes required. It is alleged by the Labour Government, on the strength of a paragraph inserted in one of their election pamphlets, that they have a mandate from the constituencies to restrict the powers of the House of Lords. Even if this mandate, which is at best vague, is to be considered real, it is not truly relevant to the proposed legislation. Under the British Constitution the authority of the electorate, though the predominant factor in political decision, is not absolute. Government, as has been said at the outset of this article, is vested in King, Lords and Commons. The Commons now enjoy far the greatest share of the authority divided between these three parties; but they do not enjoy the plenitude of authority, and have not the right to dispose of the shares entrusted to the other two. What happened in 1910 is often misunderstood. The King's prerogative was invoked to overcome the resistance of the Lords to the legislation desired by the Commons. But constitutionally this was justified, not by the abstract dogma that "the will of the people must prevail" but by the traditional and highly practical maxim "the King's government must be carried on". It is only when the Constitution has become unworkable, owing to a deadlock between the participants in sovereign authority, that exceptional measures must be taken to restore its smooth operation. Doubtless in 1910 this situation came about because the will of the people was being obstructed by the will of the Lords, to which by custom less weight was attached; but it was the situation of deadlock, and not any abstract doctrine of popular sovereignty, that caused the emergency step to be taken. King George V implicitly recognized this distinction when he declined to promise a creation of peers unless the more usual means of resolving a deadlock between the Houses, that is, a general election, was first tried and gave no relief. It may be added that, since a new method of overcoming deadlock, that is, the procedure laid down in the Parliament Act, was then provided, it would now be necessary to try this method also before it could be considered constitutionally proper to advise the Sovereign to overcome the resistance of the Lords to legislation by a creation of peers.

The answer, then, to the Government's claim of a mandate for their present Bill is that there has been no sign of deadlock between the Houses, and that the situation in which the King's government cannot be carried on without constitutional change has not arisen and does not seem likely to arise.

Secondly, the argument for the Bill has dwelt constantly on the plea that the two years' suspending power of the House of Lords is a threat of delay to socialist legislation only, and does not impede a Conservative Government. Therefore, it is maintained, a Conservative Government with a majority in the Commons can legislate at its will for five years, but a Labour

Government only for three. Although there has been no sign of an intention by the Lords to use their delaying powers in this way, the unfairness of maintaining a Second Chamber in which one of the principal parties in the State is permanently in a small minority constitutes a legitimate grievance. The logical remedy, however, is obviously a change, not in the powers of the House of Lords, but in its composition. In its origin the House was intended to gather round the King the most important persons in the realm, who were at that time the prelates and the feudal barons. Until recent times it continued to possess its original character, even though from Tudor to Hanoverian times the most important persons were not so much the greater tenants in chivalry as the members of a strictly hereditary aristocracy, based on the ownership of land. There is good reason why it should still represent individual distinction. To-day, however, the inheritors of great names and wide acres are no longer considered by virtue of their inheritance the most important people in the country. The time is therefore ripe for reconstructing the House of Lords so that its membership shall be representative of a real instead of a technical and antiquarian eminence. To a great extent the House of Lords has informally accomplished its own reformation, now that its debates are so largely confined to those members who can speak with special authority, and the less qualified never present themselves in sufficient numbers to sway the decisions of the House. But conceivably they might do so, and it is evident that the paper constitution of the Second Chamber ought now to be either harmonized with its practical working character or otherwise amended so as to provide an alternative Second Chamber that could speak with as much moral authority in the commonwealth as in their day did the Great Council of Edward I or the House of Lords of George III. For its final and fundamental office is more necessary in the twentieth century than it has ever been before. All over Europe we have seen the phenomenon of the leader or the junto that is voted into power by a majority in a plebiscite, and then uses the legislative forms of democracy to extinguish the liberties of the people and render itself irremovable from office. These things have devastated the Continent and the world. There must be retained in England an authority sufficiently detached and equipped with sufficient reserve powers to ensure that the like shall never happen here.

DOES RUSSIA MEAN WAR?

THE PSYCHOLOGICAL BACKGROUND OF SOVIET POLICY

THE policy of Soviet Russia in world affairs since the end of the war has been perplexing as well as offensive to Western observers. Why should Russia apparently seek to destroy the United Nations which she helped to create? Why, having suffered so grievously from war, should she lead the world towards another conflict by her violent behaviour in almost every sphere? Why should a Marxist Government, which presumably believes in the unity of the world's workers and the unreality of the nation-state, be the most uncompromising champion of unfettered national sovereignty?

Certain obvious explanations, when examined, appear too simple. If Russia wanted particular tangible gains (for instance, warm-water ports in the Pacific or the Persian Gulf) and were prepared to pay for them the price of risking war, her conduct could hardly have been more short-sighted. She has put her potential enemies on warning and unified their naturally divided camp. The course for her to take, if that had been the mainspring of her policy, would have been to move discreetly, if sharply, when she so chose in the areas of desired advance, while lulling the Western Powers by fair words and agreeable compromises on all other diplomatic fronts. Moreover, Russia's lack of strength for world war after the Nazi invasion and the huge cost of her own effort has been too obvious to be concealed. No territorial ambition could justify her deliberately running the risk of early armed conflict with the United States and the British Commonwealth on the present balance of military and industrial power.

Some people have advanced the theory that Russian diplomatic policy is only a smoke-screen for Communist penetration. Their view is that in the interests of "world revolution" Moscow has plotted to create the maximum difficulties for the Western Powers abroad and the maximum political dissension at home; to enfeeble their foreign policy by identifying it with a section of the nation and exposing it to class attack fomented by Communist agents or dupes; to distract attention from the fifth column by staging bellicose manoeuvres with the other four.

This is a very plausible theory. To the extent that it is correct, however, the Kremlin has again miscalculated. Suspicion of Communists and their "fellow travellers" has been greatly heightened by Russian policies which have made the Western peoples think more and more of the Communist bloc as a potential enemy. General de Gaulle's recent successes in the French municipal elections are one obvious by-product. In the United States and in Great Britain, national solidarity has been enhanced behind a policy of resistance to Russian bullying and intrigue. The fifth column has been identified with increasing clarity. These consequences have been manifest for a long time now, yet Russian policy has been intensified, not amended. Either its directors are very obtuse, or the theory itself is inadequate.

Mr. Winston Churchill, following this line of thought, has drawn the conclusion that the primary motive of Russian policy is domestic. The policy is designed, he believes, to bamboozle not so much the Western democracies as the Russian people. It is they who must be saved from envy of the capitalist countries, they who must be induced to accept further sacrifices and hardships, they whose flagging zeal for the Marxist order must be whipped up with fear and hate of the anti-Communist bogey, they whose solidarity must be sustained against the day when it may be vital to the survival of the Russian Communist State amid a general conflagration.

We do not know enough about Russian internal conditions to judge for certain how far all this may be true. That such thoughts are present to some at least of the Soviet leaders is highly likely. But the theory is consistent with many possible variations of Russian policy. It does not explain why it has taken the actual form we know. It does not link the particular internal strains and requirements with the particular external manifestations. If sound, it is incomplete.

Defensive Strategy through Offensive Tactics

ALTHOUGH the bellicose and trouble-making policy of the U.S.S.R. at the United Nations and elsewhere seems indiscriminate, it is classifiable under these broad heads:

1. Frustration of all developments which would tend to make the United Nations an instrument of majority will and therefore imply the possibility of its use against Russia or any of her protégés. (This includes the blackballing of potential recruits to the non-Communist group in the shape of new members of the United Nations, and, of course, the boycotting of the projected "Little Assembly".)
2. Refusal to yield an inch of ground, and persistent attempts to advance at any cost her own influence, external or through local Communist parties, in any territories on her own defensive *glacis* to east and west.
3. Prevention of any peace settlement which would leave the Western Powers free to develop their economic and political influence in ex-enemy countries or neighbouring ex-Allies until the utmost has been done to weaken those countries.

All this, of course, is set against the background of constant support for the Communist and near-Communist factions in every country of the world, of unflagging agitation against "Fascism" as the mortal enemy, and of seizure of the opportunity of disaffection anywhere, notably in the imperial dependencies of the Western Powers, to promote the advantage of the Communist or near-Communist factions. It is impossible to separate Russian policy from Communist policy. Nevertheless, regarded as the policy of Russia, a nation-state among others and a member of the United Nations, the attitude thus summarized is consistent only with an intense nationalist psychosis based on fear.

In order to understand this Russian fear-complex we must appreciate two things. The first is that the Government of the Soviet Union is born of revolution—of a revolution, moreover, which proclaimed itself from the

start as part of a world revolution, and consequently incurred the hostility and suspicion of every established order. Such a Government gains in assertiveness what it lacks in assurance, and reflects in its own suspicion the attitude it expects from others. It takes nothing for granted that is not solidly under its own hand. Like any underground movement, it distrusts everyone not sworn to its own allegiance. The world seen through Soviet spectacles is not a placid civilized community with roots deep in the past, but a raw Wild West where the wise man sleeps with a gun beside him and is quick on the trigger, where he who is not for you is against you. That all this is deplorable, and creates the very conditions it is intended to meet, is compatible with the existence of much in the history of the past thirty years to excuse the Russian attitude, and much in the present state of world affairs to confirm it. Conversely, Russian sponsorship of Communism everywhere has excused in the past, and confirms to-day, the hostility and suspicion of all non-Communist Powers.

That leads us to the second thing we must not forget in trying to understand Russian policy. Communism has often been described as a religion, and the term is just; for it is embraced with a fervid faith which goes far beyond political tenets admitting degrees of conviction and wide margins of compromise. But it is more than religion as we understand it in the West, where we are apt to put religion in a compartment aside from politics and where, in matters of peace and war, religious faith is more often a brake upon political actions than their stimulus. It is a whole system of political and economic ideas, prescribing action, interpreting the past and foretelling the future. Present-day Communism, based upon false or true interpretation of the doctrines of Marx, embodies, as a cardinal belief of its adherents, a philosophy of world affairs.

According to that philosophy, crudely summarized, capitalism is in a state of unstable equilibrium. It must, in its intestine economic struggle, reach out for larger markets and closer monopolies until eventually it leads either to world war, or to Fascism (the identification of the State with the capitalist order), or to Communism (the overthrow of capitalism by "the workers" and the identification of the State with them). The doom of liberal capitalism, according to the doctrine instilled unremittingly and without rival into the Russian people for thirty years, is inevitable. The only questions are how and when—and contemporary events seem to suggest that the pace of the drama is getting faster, and that, whatever else may happen, capitalism will not succumb to "the dictatorship of the proletariat" without violent resistance. Hence the determination to carry on the struggle for position on two world-wide fronts—the domestic orders of the capitalist States and their external policies. The tirades at Lake Success and the formation of "Cominform" are integral parts of the "cold war" of preparedness.

War, from this point of view, is not strictly an alternative to Fascism or Communism. It may be a phase of transition to either; it is certainly a creator of opportunities for both. Conversely, Fascism is judged to be bound sooner or later to complete the cycle by naked international conflict with the Communist order. Democracy, one way or the other, is seen as a mere means to

such ends as it may be made to serve by this or that class or interest: a technique, not an objective. The Western type of democracy being well adapted to the service of capitalism, to strengthen such democracies is to diminish the likelihood of the direct overthrow of capitalism by "the workers", and to increase the potential of the anti-Communist side in the eventual armed struggle; hence, among other manifestations, the intense hostility towards American financial aid for Europe—it is gun-running to the enemy.

Marxist Dogma and Prophecy

ALL this may seem a farrago of nonsense to us in the Western countries, for whom democracy at its highest is an end and capitalism only a means, and who see little to distinguish Fascism and Communism either in theory or in practice. But if we try to put ourselves in the place of those indoctrinated with such ideas we are bound to admit the existence of many historical events which lend them plausibility. The sequence of two world wars among the "capitalist" Powers; the emergence of "Fascist" States in Germany, Italy, Japan, Spain and elsewhere; the Nazi attack on Russia; and, to the more subtle and better-informed Soviet ideologues, the domestic progress of Great Britain and other democracies towards the aggrandizement of the State, which must—it seems—be controlled by one class or another, that is to say, be eventually either Fascist or Communist: all these things, seen through neo-Marxist spectacles, tend to confirm and strengthen the faith in the inevitability of a fight to the death, on the world scale, between Communist and capitalist States.

The belief that world war is inevitable and Soviet Russia will be one of its targets is surely the key to the foreign policy of the U.S.S.R. It leads at once to three conclusions: confound your potential enemies when you can; strengthen your own defences and friends and yield no inch of ground on your defensive *glacis*; make certain that the instruments of world co-operation cannot be used by your potential enemies against you. All this is entirely consistent with not wanting the war that is accepted as bound to come sooner or later.

Indeed it is very unlikely that Soviet Russia wants now, or will want in the near future, to precipitate war. We know that the Western Powers do not and will not want to do so. Therefore the first conclusion for us is to keep Russia in that frame of mind by sustaining our own strength, both as individual countries and—still more—in combination. Division among the Western Powers is the one thing which more than any other is likely to cause the Soviet group to conclude that since war is inevitable it had better be now. Unity among the Western nations is the road to world peace.

Moreover, we must not fail to draw the lesson from the Russian exaltation of national sovereignty. Within the Soviet group, Moscow-directed Communism makes sovereignty meaningless. Outside, it is not only a weakening and divisive force; it is in truth that self-destructive element of our society which the Russians see in liberal capitalism. The State is growing, the individual is shrinking; and the first need of our age is a true society of States which will triumphantly deny the philosophy of inevitable conflict and destruction.

One more conclusion is vital for the Western Powers. We should never give way to acknowledgement of the inevitability of world war. Its possibility we know too well, its likelihood we fear, but once we admit it to be inevitable there is nothing between us and the Soviet doctrine save the choice of sides, nor anything save the *casus belli* between us and war more ghastly than we can imagine. We can change the minds of the Soviet leaders only by the gradual impact of our own faith in the possibility of an enduring peace, in which Russia and ourselves, contrary as our political and economic structures may be, have our own contributory rôles to play.

It must, clearly, be part of our faith that war is not the necessary, nor the best, way of meeting Communism. We must find the means to do that within our own peaceful democratic armoury. In the long run, this may prove the most crucial part of the task; for unless it is accomplished we shall ourselves be confirming the central thesis of Soviet policy, that world war with Russia as its target is inevitable, and acknowledging to history that in their intransigence the masters of the Kremlin are wise in their generation. That was, indeed, an important part of M. Molotov's thesis in his Moscow oration on the thirtieth anniversary of the Bolshevik revolution; and there is no need to write it off as mere hypocrisy, confirming, as it does, the view that Russia is far from wishing a war now or soon, whatever she may expect of the more distant future.

TWO NEW PERIODICALS

TWO new periodicals of imperial interest have begun publication since the last issue of THE ROUND TABLE. *The British African Monthly*, of which the first number, price 1s. 6d., was published at Johannesburg in September, takes the place of *The Union Review*. Mr. Barnett Potter, the editor of the old, appears as managing director of the new magazine, which, under the editorship of Mr. D. E. McCausland, K.C., seems likely to pursue a more moderate version of the well-known imperialist policy of its predecessor.

Life Line is a quarterly, published in London for the first time in October, price 6s. Its interests are not primarily political, but its promoters found themselves upon the "belief that, at the beginning of the atomic age, and during the state of world chaos which all thinking people recognize as temporarily inescapable after two world wars, the British Commonwealth of Nations stands as the greatest and strongest living force for security, civilization and man's humanity to man".

THE PLIGHT OF THE CONQUERED

ECONOMIC BACKGROUND OF THE LONDON CONFERENCE

THE publication of the revised Level-of-Industry plan for the British and American zones, and the November meeting of the Foreign Ministers in London—to say nothing of the Marshall Plan discussions in Washington—serve to draw public attention once more to the economic condition of Germany. For the European economic crisis has been very greatly intensified by the fact that the United States is being called upon in large measure to fill the gap caused by the disappearance of German exports, in addition to the traditional rôle of the Western Hemisphere as the supplier of foodstuffs and certain raw materials.

Unfortunately the prospect of any immediate German contribution to European recovery must be ruled out. Though some recovery has been effected from the disastrously low level reached last winter, the volume of industrial production continues to be lamentably low, in the British zone barely more than 35 per cent of the 1936 figure; and though the revised index in the American zone has reached a somewhat higher level—rather over 50 per cent in July—the concentration of the greater part of German industry in the British zone renders this improvement less significant for the country as a whole.

The fundamental reason for the extremely low productivity of industry is the lack of food: the Oder-Neisse frontier removed about a quarter of the agricultural acreage of the Old Reich. Meanwhile the influx of refugees into Potsdam Germany has largely increased the population of all the occupied zones except the French, leaving the British and American 'Bizonia' with an excess of population over the pre-war figure of something in the neighbourhood of seven millions. Meanwhile the Russian zone, which was always an important bread-growing and potato-producing area, has also an increased population as well as an occupying army to support.* Owing to the deficiencies of fertilizers and agricultural machinery, &c., yields have been very much below the pre-war level, and even before the war, when the drive towards autarky was at its height, Germany was only self-sufficient in foodstuffs to about 80 per cent. It is not necessary therefore to assume that exports of food eastwards have been the reason why the Russian zone has contributed so little to the feeding of the other three zones, although in fact a comparatively small quantity of potatoes is all that has been received from this source. Under present conditions Bizonia is producing only about 1,000 calories per day for the normal consumer, and during the earlier months of the year actual distribution sometimes fell below this level in the Ruhr. Thanks to the increased importation of supplies from the U.S. the situation has recently improved and the stock position is much healthier, but even so it was not possible to distribute in July the whole of the official ration of

* The increase of population is due to the influx of refugees from the territories now passed to Poland and Russia, Czechoslovakia and Hungary.

1,550 calories, which is itself only about 50 per cent of normal pre-war consumption. Nor are the prospects for this winter altogether encouraging. The grain harvest has not been substantially worse than last year, but the drought has done great damage to root crops, hay and vegetables, and the world demand for the diminished U.S. surplus of grain has diminished the chances of an increase of distribution to 1,800 calories, which had been projected.

Next to the dearth of food, which has been the principal reason for the enormously diminished productivity per head of German workers, the scarcity of coal has been the limiting factor. Thanks to inducements in the shape of food and consumption goods, production in the Ruhr has shown a slow but steady increase. Yet the monthly production in the British zone had only just reached 6 million tons in July, as compared with a monthly average of about 9 $\frac{3}{4}$ millions in 1938.* Nor is the whole of the diminished volume of coal produced available for German industry. Out of a gross production during the first six months of this year amounting to nearly 33 million tons about 4 $\frac{1}{2}$ millions were exported. In the Saar mines production has approached far closer to the pre-war figure, having reached to between 80 and 90 per cent.

Iron and steel production was affected more adversely than coal during the winter, and in the Ruhr had not yet reached the level of last autumn by August, when 227,000 tons of ingot steel were produced as compared with the monthly average for 1936 of 1,156,000 tons. The chemical industry is working at a low capacity owing to lack of fuel-power, other materials and labour. In Bizonia the production of sulphuric acid, which is generally considered to be the basic index of heavy chemical production, was running this summer at only a little over a third of the 1936 monthly average, and the production of soda ash at nearly two-thirds owing to the stimulation of the plate-glass industry. Fertilizer production, though enjoying a high priority, was still well below the level required to meet indigenous needs. The production of calcium cyanamide and the nitrogen fertilizers has been severely limited by shortages of coal and electric power as well as the non-delivery of ammonia from the French zone. The production of dyestuffs and pharmaceuticals is scarcely more than sufficient for the German internal economy at its present low level of production. In the circumstances it is not surprising that the production of consumer goods in the British zone at the end of July was still well below the level reached in the summer and autumn of 1946, being rather less than 30 per cent of the 1936 figure.

Another factor limiting production has been transport, particularly on the railways. The German system of transportation was the special target of the Allied air forces, and the damage inflicted was enormous. Since the war restoration as regards rolling-stock has been carried out with great success by the 'cannibalization' of damaged units, and that process has now reached its logical conclusion. Wear and tear is now beginning to overtake repairs and, in the absence of materials for fresh construction, the position is growing tighter every month: so much so that it is doubtful whether it would be possible to move coal stocks from the pits if any considerable increase in the volume of production were to take place.

* The figures for September and October show a substantial increase.

Inflation and its Effects

THE adverse effects of these material scarcities have been enormously increased by the huge excess of currency in circulation and the universal distrust in the stability of the mark which it has engendered in the minds of the German people. Notwithstanding the stabilization of excess purchasing power effected by the blocking of bank deposits in the Soviet zone, the volume of currency and bank deposits in Potsdam Germany during the spring was almost three times that of the Altreich at the end of 1938, although the level of industrial production was a good deal less than half of that attained in 1936. Thanks to the maintenance of at any rate a partially efficient system of price controls there has been nothing comparable with the flight from the mark which took place after the first World War, but the concealed inflation has manifested itself in a number of ways, "black" markets and "compensation", *i.e.* supplementation of wages by payments in kind, and a clandestine resort to barter at all stages of the production process. The effect of these diseases has been to slow down production enormously and to distort the employment of what resources are still available. In a period of such acute scarcities the machinery of controls would be complicated enough for a German government to administer, and the complication is trebled by the super-imposition of a bipartite control on half a dozen Länder administrations.

Finally, the absence of any German currency quotable on international markets has enormously complicated the business of reviving German foreign trade. As balances have to be settled in dollars, prices of exports have to be fixed in foreign exchange by a complicated process, in which the Control Commission is necessarily involved, whereby a national exchange rate has to be paid for each class of product, since no direct relation between German costs and prices and those of the outside world can be established. The consequence is that for the German exporter the administrative procedure is incredibly complicated, and his position is not rendered any easier by the famine of consumer goods existing in the country. The would-be buyer of German goods on his side is acutely affected by the prevailing dollar scarcity, with the result that transactions tend to take on a barter pattern. Up to date, exports from Bizonia have consisted for the most part of coal and timber, which over the past seven months of this year accounted for £17½ million, other exports only totalling just over £3 million.

Very little trustworthy information concerning conditions in the Russian zone is available. Removals of plant as reparations have taken place on a much larger scale than in the other three zones, and a large proportion of remaining industry has been acquired by the Russian Government by the creation of trusts with Russian ownership. According to General Clay, about 50 per cent of the output of industry is devoted to reparations in kind.

Apart from the Saar, where special measures in the shape of extra rations and privileges have from the beginning been taken to improve production, the level of industrial production, though rather higher than in the Ruhr, is still very low. Here again lack of food is the principal reason, the ordinary consumer ration being officially the lowest of the three western zones.

Meanwhile the economic unity of Germany has been split into three parts, and two of the occupying Powers, Russia and France, have endeavoured as far as possible to integrate the economy of their occupation zone with that of the home country. The effects of this policy on Bizonia have been somewhat less disturbing than might have been expected, but only because the level of industrial production has remained so low. Once German industry was working at anything approaching full capacity the complications of inter-zonal bottlenecks would make themselves acutely felt. As things are to-day their existence is, with certain exceptions, less obvious. Inter-zonal frontiers are not hermetically closed, but inter-zonal transactions are administratively very complicated to arrange and tend inevitably to assume the barter pattern. Moreover, both Bizonia and the Eastern Zone tend to concentrate their exports on those which will earn foreign currencies (dollars and sterling). The result is, of course, that the volume of inter-zonal trade is extremely small. During the first five months of the present year Bizonia's inter-zonal trade, excluding electric power and manufactured gas, amounted to less than RM. 250 million.

The Schedule of Reparations

IT is against this general economic background that the new Level-of-Industry plan and the recently published schedule of reparations must be considered. Perhaps the best that can be said of it is that it represents a very great advance towards realism when compared with the Potsdam plan, but even so it may be doubted whether in fact it can fulfil its ostensible object of creating a self-sustaining economy for the combined British-American zone. Once more it looks as if political compromises will be defeated by economic facts.

The new plan assumes that by 1952 the population of Bizonia may be from 8 to 10 millions greater than in 1936, which would make it approximately equivalent to about 70 per cent of the pre-war population of the Altreich. Now before the war Bizonia produced little more than one-third of the Altreich's output of rye, only 45 per cent of that of wheat, a third of the potato crop, less than a third of the output of sugar-beet, and about half the stock of milch cows. Even assuming therefore that agricultural output has attained the pre-war level—which, judging from what took place after the first World War, is hardly likely to occur within less than 10 or 15 years—Bizonia will have to support a level of exports sufficient to enable it to import a very large quantity of foodstuffs. Under present conditions imports of food, seed and fertilizers, sufficient to make possible an essential diet, are estimated in the plan to cost between 1,000 and 1,250 million (American) dollars, and other necessary imports about 750 million dollars. In order to import these necessities Bizonia will need to export at least 15 per cent more in volume than in 1936, assuming that it is possible to maintain equilibrium in the invisible items of the trade balance. This is, however, extremely unlikely, since Germany will not be permitted to have any merchant navy, has been deprived of all her foreign assets, and is unlikely to earn any income, at any rate for a long while to come, from financial services rendered to foreign

countries. Moreover, the plan assumes the economic unity of Germany, *i.e.* that Bizonia will continue to supply the needs of the rest of Germany in exchange for commodities it requires, though it is recognized that "since trade between the bizonal area and the rest of Germany is subject to greater uncertainty than former internal trade the result may be to increase still further the need for trade with other countries". Nor must it be forgotten that the essential diet, though justified by an extreme world shortage, is hardly likely to be sufficient over a long period of time to maintain anything like a normal productivity. The abstract calculation of calories can be very misleading, and it may well be that the composition of an adequate diet would in fact entail much more expensive imports than those allowed for, and therefore require a greater volume of exports.

In these circumstances it is difficult not to regard the revised plan as quite unduly optimistic. The level of steel production permitted is only 10.7 million tons, which, it is true, is a great improvement on the 7.5 million tons capacity fixed at Potsdam but is 28 per cent lower than the actual production in 1936, when the rearmament programme had not yet got under way. The ostensible justification of so low a level is the reduction in heavy machinery capacity, which is to be reduced to about 80 per cent of the pre-war production figure (1936), entailing a dismantling of about 35 per cent in reparations, but it is difficult to see how in that case Bizonia's exports are to be increased to at least 15 per cent above the pre-war level, and probably a good deal more if a self-sustaining economy is to be attained at any reasonable standard of living. For one of the principal export industries, the machine-tools industry, though very considerably raised from the Potsdam level, is to be reduced by 35 per cent of its 1938 capacity; the plant for producing dye-stuffs is to be somewhat below pre-war capacity; and the pharmaceutical plant capacity to be left in Bizonia will be equal to about 87 per cent of pre-war production. Reparations to be taken from light machinery, on the other hand, will be only 23 per cent of existing capacity, that retained being sufficient to produce nearly 20 per cent above pre-war (1936?) production. But this is a field where acute competition is likely to be encountered in international markets, and in any case the volume of exports needed to take the place of heavy machinery would probably be quite impracticable to achieve.

Quite apart from the inevitable waste of economic effort involved in the taking of reparations in the form of second-hand machinery, it is difficult to believe that the arbitrary tearing out of plants and bits of plants from an integrated economic system like that of Germany can leave the remainder in a position to function with any degree of smoothness, especially when zonal barriers are taken into account. Thus, though abstract reckoning of capacities may present a plausible picture, it may perhaps be doubted whether the actual production possible would attain anything like the theoretical level permitted. Indeed it is impossible to resist the conclusion that even in its revised form the Level-of-Industry plan is not really self-consistent, because it is not possible to reconcile its two fundamental objects, namely, the reduction of Germany's economic capacity to a level where armament will

no longer be possible, and the maintenance of a self-sustaining economy: indeed the only way in which such a reconciliation would be possible would be to maintain the German standard of living for ever at a low subsistence level, at which no choice between guns and butter would ever be possible because the inhabitants would always be kept too poor to afford either. That was, of course, the basic intention of the Morgenthau plan, but it is doubtful whether any large section of public opinion in the U.S.A. or the British Commonwealth to-day would be in favour of such a policy, and certain that within twenty years forcible means for keeping down the German standard of living will find few if any adherents. Hence the wisdom may be questioned of imposing a level of industry to-day which public opinion will not be willing to keep imposed in the foreseeable future.

In the meantime, however strong the protests from the German side against the programme of dismantlement in its much diminished form as contained in the new plan, it must be admitted that, even in the case of steel, the permitted level of 10.7 million tons is far in excess not only of to-day's production but of any production that can be foreseen in the near future. Even if all coal exports from the Ruhr were to be stopped to-morrow, it is doubtful whether the output available for German industry could be increased within several years to the point at which the full permitted steel capacity could be attained, and it may be noticed that the Marshall Plan Committee reckoned the steel production to be attained in Bizonia in 1951 at only 10 million tons—a figure which may well prove to be on the optimistic side. Apart therefore from the diversion of economic effort involved in dismantlement, the immediate economic effect of the programme on the revival of German industry may be much smaller than German public opinion imagines. But here is the crux: the politico-psychological effect may be very much greater, considering the low state of German morale and the deplorable hand-to-mouth existence of present-day industry. The mixed atmosphere of resentment and despair may slow down almost indefinitely the process of recovery, thereby prolonging the period during which the U.S.A. and Britain have to support the German economy. Moreover, when the process of recovery reaches a certain point, it will almost certainly be found, if the programme of dismantlement is carried out to the full, that the resources left to Germany will not be adequate to maintain a self-sustaining economy. In that case, external support will be required until the necessary productive capacity has either been created or supplied, and in any case the contribution to European economic recovery which German industry alone can make will be seriously retarded and diminished.

It is difficult to resist the conclusion that the Potsdam approach to the problem of reparations has not been very practical. If, instead of destroying industrial capacity, German machinery had been introduced to control the end products the prevention of German rearmament could have been equally well assured. For the Ruhr is the key to the whole problem. Once that has been placed under control the possibility of rearmament in the rest of Germany is ruled out. Moreover, within her new frontiers Germany will be very largely dependent on external sources for feeding herself, and thus much

more susceptible to early international preventive action. Had it been possible to retain the industrial machinery of Germany functioning, a short-term programme of reparations in kind might have been introduced which would have gone a long way to repair the damage done by Germany in the countries which she occupied. As it is, the reception of second-hand machinery will hardly enable any of the allied nations to fill Germany's former place in the European economy—a consideration rendered all the more important by the Harriman report, which has halved the Paris steel requirements. How far it would in fact have been possible to keep the German industrial machine working it is difficult to say, but at any rate the present degree of disintegration could have been avoided. No objection would be raised against the dismantlement of industrial units erected and employed wholly for war purposes, even by the Germans themselves. It is the destruction of industrial capacity, the end products of which could without great difficulty be controlled, which gives rise to such distrust. And in the last resort it is not really relevant to ask what will happen at some future date when the control ceases. No one can seriously imagine that once dismantling has been accomplished Allied control of Germany will go on for ever. The only hope for humanity is that when control ends the desire of the German people for rearmament should itself have been extinguished.

CENTRIFUGAL FORCES IN FRANCE

THE DANGERS TO PARLIAMENTARY GOVERNMENT

WHEN France was liberated, her economic situation was serious, but her political prospects seemed brighter than they had been for years. After three years, the economic position is no less serious, and the political situation is as grave as it was in 1934. The tragedy of it all is that at no stage during the past three years did it seem beyond the capacity of the political parties to put a stop to the steady political and economic deterioration. Yet, as economic conditions worsened, as the demand for firm political action increased, the response of political parties seemed to become more theoretical and doctrinaire. There was no lack of planning. State control of the economic machine was intensified, the wage system was overhauled, steps were taken to arrest the dangerous rise of prices and a comprehensive plan to increase production was drawn up. But, all the time, the effective grip of the administration on the practical day-to-day working of the machine was weakening. In the autumn of 1947 inflation was out of hand, Governments were unstable, depending as in pre-war days on precarious coalitions, and there was widespread disappointment regarding the achievements of the democratic parties since the liberation. There was no identifiable last straw: merely a cumulative dissatisfaction, resulting, in October 1947, in the massive vote at the municipal elections for the candidates of General de Gaulle's French People's Rally, formed only six months earlier.

Looking back on the progress of events since the liberation, it seems possible now to distinguish certain very definite contributing factors to the present crisis, though it is sometimes difficult to know what relative weight to attach to them. It is even more difficult to see any very clear or simple way out of the present political and economic dilemmas.

One thing which is now clear is that the political cohesion which, in 1944, seemed to offer a real hope of stable parliamentary government did not have deep enough roots. The basic political divisions between Right and Left, between economic liberals and Socialist collectivists, between anti-clericals and Catholics, were still there, if not as fundamental beliefs, at least as political attitudes and platforms; and, once the bitterness of the occupation and the recriminations associated with the purge of collaborators began to recede and be replaced by the normal phenomena of political life, the old divisions began to reappear. Even then they might not have become acute, if it had not been for the long-drawn-out debates on fundamental political principles which accompanied the drawing up of a new constitution.

The constitutional debates exacerbated political differences at a time when it was vital, in the interests of French reconstruction, that they should be glossed over as much as was humanly possible. The older politicians were undoubtedly abler and more experienced constitution-makers than the new and younger resistance leaders. The desire of the latter for a fresh start, and

their condemnation of the failures of pre-war politicians, sometimes led them to attach too little importance to the need for good drafting, for a constitution that should be a workable instrument of government as well as a bastion of the Republic against the threat of Fascism. And so the debates were prolonged interminably and, in the process, old grievances and old hostilities were revived. The average elector cared little about the technicalities of constitution-making, but he did note that, as in pre-war days, Parliament was divided into wrangling factions, and that, while politicians argued, prices were outstripping wages. He became, too, very weary of elections. Having been called on to vote for municipal councillors and national representatives in 1945, he was called on, in 1946, to vote *twice* for a constitution (which was supported by two parties and somewhat half-heartedly by a third, and opposed by other parties and by General de Gaulle) and to elect *two* National Assemblies within a period of five months. The result was that while about four and a half million electors did not vote at the first general election of 1946, five and a half million did not vote at the second. The first constitutional referendum was ignored by four and three-quarter millions; the second by nearly eight millions. During the year which had been occupied in constitutional debates the general index of retail prices had increased from 480 to 865 (1938 = 100), the average wage level had increased only to 359-74, and the trade-union movement was endeavouring to persuade the Government to agree to a legal minimum of 7,000 francs a month, of which over 60 per cent, at a very moderate estimate, would be devoted to expenditure on food. The wheat harvest had been inadequate, there was an acute shortage of coal and electricity, the black market was unsuppressed, the farmers were still eating well and refusing either to sow or to deliver enough wheat to feed the towns. In the circumstances, the Constitution was among the least important of the preoccupations of all but the most politically minded French men, and it mattered even less to French women, who had voted for the first time in 1945.

Confusion of Issues

IN the main, therefore, the average elector, if he voted, followed the line taken by his party leaders. Never was it more important for the political parties to give a clear, firm and, above all, honest lead; to seize their opportunity, while the prestige of the left-wing parties was high, to build up a stable parliamentary government and respect for parliamentary institutions. They failed to rise to the occasion, and that failure was an important factor contributing to the present crisis. The three strongest parties were, of course, unfortunate in that the first general election returned an almost equal number of each. All three were signatories of the Resistance Charter and, what is more important, were *really* in sympathy with its long-term objectives. But they had not learned to work together, except when united by a common enemy, and they failed to distinguish clearly between their short- and long-term objectives and their short- and long-term opponents. When General de Gaulle retired from politics in January 1946, the real danger of dictatorship, if indeed it had ever existed, was over—on one condition. Only

the failure of the democratic parties could bring him back, and in January 1946 they held over three-quarters of the seats in the National Assembly. By November 1946, the Socialists had lost forty-odd seats and well over a million votes; by the spring of 1947, General de Gaulle was again a national political leader, with an organization behind him claiming a membership of over three-quarters of a million; by the autumn of 1947, the M.R.P. had suffered a defeat in the municipal elections, which reduced its vote in the medium and large towns by half. In the 344 towns with a population of over 9,000, the M.R.P. polled nearly 24 per cent of the votes cast at the general election of November 1946. In the municipal elections of October 1947, in the same towns, the M.R.P. polled just over 10 per cent. The small Gaullist Union had polled under 3 per cent in 1946; General de Gaulle's Rally polled over 33 per cent in 1947. The national repercussions of this landslide were not long in following. On taking office in January 1947 M. Ramadier received a vote of confidence from 577 out of 587 members voting in the National Assembly. Even after the departure of the Communists he could still command a majority of about 100 votes, up to shortly before the election. He re-formed his Government as soon as the results of the first ballot were known, and the new Government received a vote of confidence of 20 when the Assembly met at the end of October.

There is, of course, no simple explanation of this apparently sudden swing of public opinion. Undoubtedly the economic crisis, and, in particular, the hardships imposed on the urban working and middle classes by uncontrolled inflation, count for a great deal. But the political failure of the two parties which represent the bulk of the working classes and a high proportion of the lower middle classes may well be, in the long run, more serious than the Government's economic failure. In November 1944 Socialists and Communists were determined to create real working-class solidarity. The united trade-union movement had already been reconstituted during the occupation, and the political movements were psychologically prepared for fusion and ready to sit down together and work out the practical steps necessary to bring it about. They never succeeded in doing this, and responsibility for that failure belongs almost, if not quite, wholly to the Communist party. The Communists, in accordance with their traditional policy, tried to make the maximum political capital out of any and every situation and did not scruple to use any means to this end, including appeals for working-class unity, accompanied by scurrilous personal attacks on leading Socialists. Fusion, for the Communists, meant absorption of the Socialist movement and therefore the necessary preliminary was to win votes at the expense of the Socialists. The Socialists were angered by Communist tactics and shocked by the political immorality of their subordination of ends to means. But, in their anxiety to avoid either being swallowed by the Communists or driven into the anti-Communist camp, they allowed themselves to be divided. They devoted far too much time and energy to working out their relation to the Communists and, consequently, far too little to winning the support of the electorate for a positive Socialist policy. They also allowed themselves to be manoeuvred by Communist tactics into keeping their

distance from the one great democratic party with which close co-operation would have been possible, namely, the Catholic M.R.P. It is true that this party contained a relatively large or, at least, potentially large right-wing element. Its unwillingness to compromise on clerical issues, too, alienated a number of Socialists. But its leaders were close enough to the Socialists to have made it possible for a strong, positive policy to be worked out, if the Socialists had felt able to take the risk of isolating themselves from the Communists. When they did realize that this risk would have to be taken the ranks of the M.R.P. had been considerably thinned by defections to the new Gaullist group and the Socialist party had lost a quarter of its votes, mostly to the Communists.

Responsibilities of Coalition

CERTAINLY, the Socialist Party had great difficulties to contend with, and it was not so easy to be clear-sighted in 1945 and 1946 as it was in 1947. Socialist sympathizers had increased at a moment when Socialist leaders were depleted, both by the toll taken of resisters and by the purge of collaborators. Communist provocation was great, but political ruts were deep. It was hard for many Socialists, after the move towards unity of 1944, to turn their backs on a revolutionary party in order to co-operate with a Catholic one, and, what was more, a Catholic party more than tinged with uncritical Gaullism. Still, the fact that Socialists were driven to allow the Communists to call the tune, to drag one red herring after another across the trail, their failure either to produce any national leaders with half the courage and clear-sighted statesmanship of the septuagenarian Léon Blum, or to follow his leadership with sufficient enthusiasm, and their inability to convince the puzzled elector that they had an ideal and a practical policy more worth fighting for than anything that the Communists had to offer, all helped to bring what Socialists and Communists both feared, a real threat of Gaullist dictatorship.

Two other political failures ought to be mentioned. The first is technical and subsidiary. The electoral machinery devised by the provisional National Assembly, with the aim of giving strictly accurate proportional representation to the three rival parties, was an unnecessary complication. The average man had quite enough on his mind without having to make the effort of understanding the voting system, and he certainly cared little what the precise relationship of the three parties was, provided they settled what was for him the vital and urgent problem, namely, the relationship between prices and wages. Moreover, the wrangles and compromises which accompanied the working out of the system did nothing to enhance the prestige of any of the three parties.

The second failure is moral and crucial. The success of parliamentary government depends on the acceptance of certain principles of political responsibility, not merely in theory but also in practice. A coalition Government is doomed if it is continually weakened by attempts on the part of one member of the coalition to score electoral points at the expense of the others, by attacking, outside Parliament, measures to which their representatives

in the Government and in the Assembly have agreed. The cost of possible short-run triumphs is bound to be the long-run discredit and defeat of the parliamentary principle itself, on which the existence of all members of the coalition depends. The rapid growth of the Gaullist party, with its insistence on the need for a strong executive and its hostility to political parties, is proof of the reality of the threat to parliamentary government, caused by the abuse of its essential principles. All parties have, to some extent, undermined Cabinet solidarity in order to reap party advantage, although only the Communists have done so consistently and with total disregard for honesty and for the consequences to the nation. But political responsibility also demands that a party shall not—as the Socialist party did at its Congress of 1947—embarrass its own Prime Minister and his Socialist colleagues by passing doctrinaire resolutions which they know cannot be applied, which they do not even intend to be taken seriously, but which they hope will win them support in the country.

The Hungry Sheep

HOWEVER important these political failures may be in the long run, it is the economic failure of French Governments since the liberation that has alienated the sympathy of the average elector for the democratic parties. No one believes that General de Gaulle's new supporters are hankering after a Napoleon or a Pétain. They are simply tired of the economic muddle, of political wrangles and administrative inefficiency, of a France divided into country people eating bigger and better meals than ever they did before the war, and townspeople who are either spending all their time and money in the attempt to feed themselves, or making fortunes by supplying the black market and spending them in buying its products. Whatever Government is in power will be faced with the task in which preceding Governments have failed: the task of balancing the budget by a drastic curtailment of expenditure; of increasing French production and, as a necessary means to that end, increasing rapidly her supply of skilled man-power; of stabilizing prices which have risen in 1947, and are still rising, more steeply than ever before; of refusing to make further concessions to the repeated demands for wage increases.

The last-mentioned task is likely to be politically the most difficult, for there is little doubt that the patience of both working- and middle-class wage-earners is wearing thin. The *minimum vital*, assessed by the Trade-Union Confederation a year ago at 7,000 francs a month, has now been reassessed at 10,800 francs. Strikes in support of demands for increased wages have been growing during the summer, both in industry and the Civil Service. For the Government to accept anything approaching the figure of 11,000 francs as a general minimum would involve an increase of expenditure far beyond the present capacity of the national finances. Yet it is by no means certain that the working class can at this stage be convinced of these economic realities. In September there was a strike against the reduction of the bread ration, although it was demonstrably out of the power of the Government to maintain it for the time being. The exact degree of Communist responsi-

bility for some of the strikes is not clear, but it is generally believed that the Communists have tried to prevent a number of strikes and have only come in and taken over the leadership when it was clear that they could not stop the strike. Since the creation of the "Cominform", they appear to have changed their policy and to be seeking to provoke strikes. The advent of a de Gaulle Government would surely offer a welcome pretext for even more violent action.

What, beyond that, would be the precise tactics of the French Communist Party, which polled over a quarter of the votes cast at the last general election, to the return of General de Gaulle to power? That is a question that the average Frenchman is asking himself more and more anxiously, because the courageous, though belated, attempt of the middle parties (represented by the Socialist party, the M.R.P., elements of the Rassemblement des Gauches and the U.D.S.R.) to form a "third force", strong enough to maintain democratic government in its traditional form against the threat of Gaullism, is by no means certain to succeed with the present distribution of political opinion in the National Assembly. If means are found to dissolve the Assembly immediately or within the next few months, public opinion will have its say, and, judging by the results of the municipal elections, will return a strong Gaullist party to power. It is significant that the two main articles of faith—they can hardly be described as a policy—of General de Gaulle are the need for a strong Government and hostility to the Communists. Now the first needs above all two things, and General de Gaulle has given no indication so far of how he intends to obtain either of them. It needs an efficient administrative machine and the goodwill of the workers. As far as the first is concerned, General de Gaulle was in power, in far more favourable circumstances, from liberation until January 1946, without succeeding in creating a machine trustworthy or efficient enough to make the rationing system work, to make the peasants sow and deliver wheat in sufficient quantities or to keep the black market in check. It does not seem reasonable to suppose that he could do any better in the immediate future, even if he were not faced with the prospect of widespread industrial unrest, strikes and non-co-operation by the Communists. In fact, all the probabilities are that the Communists would actively oppose him, perhaps even to the point of civil war.

If General de Gaulle comes to power, then, whether he governs by constitutional or unconstitutional means (and there is no reason to doubt his intention to keep to constitutional means), the danger to the Constitution is equally real. Democracy and the whole machinery of parliamentary government, are, therefore, in grave danger, and, in these critical post-war years, much more than the political future of France may depend on the political developments of the next few months. The realization of these facts may perhaps bring much-needed strength and unity to the progressive and democratic forces both inside and outside Parliament and thus enable the "third force" to be not merely a defence against totalitarianism, but a positive and effective expression of democracy in action.

CHINA IN TRAVAIL

THE spectacle of a great people tearing itself asunder is something that even the most detached historian cannot watch without emotion. To anyone who from Chungking or Kunming saw a little of the sufferings and fears of the people in Free China on the eve of the Japanese surrender, and then witnessed the upsurge of hope when the Japanese laid down their arms peacefully and without destroying all the industrial prizes of coastal China and Manchuria, the subsequent march of events during 1946 and 1947 is a heartbreaking story. China after two years of so-called peace finds herself in greater peril to her nationhood than she was during the war, when the richest half of her territory was under hostile occupation. Since March 1947, when the already embittered relations between the National Government and the Communists were finally broken off, civil war on a large scale and on widely scattered fronts has been openly waged; and since June the Government has publicly announced its plans for an all-out military campaign to exterminate the Communists, now branded as rebels and traitors, although they control vast areas containing a quarter to a third of China's population. Military conscription, which was to have been ended almost two years ago, has now been intensified with all the brutalities that the practice involves under Chinese conditions. Internal rail and river transport, which here and there was slowly beginning to be rebuilt with UNRRA supplies, is again crippled by the arbitrary and destructive exactions of the military. Food requisitioning, often with levies by local generals superimposed on the demands of the National Government, has been extended mercilessly into regions (such as Hunan and Anhwei) already menaced by famine and receiving UNRRA relief supplies. Paper dollars by the billions have poured from the printing presses to finance the needs of armies and Government departments, driving prices to heights which have paralysed most industrial production and export trade. The exchange value of the currency has fallen from about 1,500 to one United States dollar in August 1945 to about 80,000 in October 1947. China's foreign trade, after a brief feverish period of uncontrolled imports, which for the most part enriched a few traders but brought little permanent benefit to the public, is now almost at a standstill and is throttled by severe and cumbersome restrictions. Foreign exchange reserves, which, thanks to American credits and United States Army expenditures in China, had risen to about United States \$1,000 million in 1946, are now reduced to only a small fraction of that amount.

Sacrifices of this order might perhaps be tolerated if the eventual rewards were assured and substantial. Yet in the military sphere the National Government, after almost two years, has barely extended its precarious foothold in North China, has failed to open either of the two north-south trunk railways, and has only just been able to prevent its isolated armies in Manchuria from being cut off and whittled away by the Communists. Morale among the Nationalist troops has remained low on most fronts and there have been some notable defections of Nationalist units—in one case a

whole division—to the Communists. Nor have those favoured divisions which were trained and armed by the American Army always proved to be unqualified military assets. In too many cases American arms and supplies have passed, by capture or bribery, into the hands of the Communists, and in most areas the problem of feeding and maintaining these divisions on the relatively extravagant scale to which they have been trained has put grave additional burdens on an already inefficient service of supply.

Despite the pressure from the American military advisers and the pleas of General Marshall (and probably General Wedemeyer later), the oft-discussed reduction of the swollen Nationalist armies has made no progress. A Government which can barely afford to maintain an army of one million, and that only modestly equipped and poorly paid, persists in keeping three million ill-fed, badly clothed men under arms, only a fraction of them really fit for duty. The burden of these useless armies on the populace is not measured merely by the grain taxes and currency inflation needed to maintain them, but also by the constant draining away of man-power from an agricultural economy which requires large amounts of labour, and, perhaps most of all, by the hatred which the soldiers' looting and requisitioning of food and animals evokes among the peasants.

There is much less precise information on the Communist-controlled areas, still very large and economically important. Yet the few outside observers who have visited these regions generally agree that, though morale is relatively high, the economic and administrative policy of the Communists has moved during the past year into a much more drastic and revolutionary phase than was characteristic of the period from 1937 to 1945. Expropriation and redistribution of the larger land holdings, and the use of summary village courts to settle old, sometimes very old, grievances against those who have fallen out of favour with the authorities, have become increasingly familiar instruments of policy. Excesses and bloody reprisals by Communist troops against ill-fated communities which happen to be located on the border-lines of Nationalist and Communist territories have been much more frequent than formerly. Moreover, since they were forced to evacuate their old capital at Yen-an and have lost many of their contacts with the rest of China and the outside world, the propaganda and general ideological line of the Communists has taken on a far more extreme and doctrinaire quality. That in itself tends to confirm the belief of those who now allege that the Chinese Communists for the past twelve months have been following the regular Moscow party line much more closely and noticeably than formerly. Finally, it should be noted, though the evidence as yet is far from conclusive, that there have been increasing reports of more substantial and direct aid given to the Communists in Manchuria by the Russians, principally, it would seem, in the form of well-armed Korean troops from northern Korea.

Confident Communists

WHAT is less open to question and more significant is that the Communists, despite the numerous campaigns launched against them, remain astonishingly confident of their future. No recent visitor to China

can fail to remark this fact. Nor can one cease to marvel at the extent to which in recent months sympathy with the Communists' aims and programmes finds vigorous expression from the most unexpected quarters in Nationalist China. Such expressions come even from conservative Chinese business men who have no love for Russia or socialism, men who in 1945 were solid supporters of the National Government but feel now that life under the relatively honest totalitarianism of the Communists could not be worse than it is under the corrupt inefficiency of the Kuomintang. Indeed it is on this fact that the Communists count most heavily for their eventual success. They do not deceive themselves that they will win many large frontal engagements in the field, but they are confident that the Nationalist forces will eventually collapse from their own graft and incompetence. It is worth noting that the Communists have recently made successful use of specially trained "surrender negotiators", experts in bribing the surrender or desertion of opposing troops whose morale has deteriorated! Such devices were of course tried and perfected earlier by the Communists in their dealings with puppet Chinese forces serving under the Japanese in North China.

The question is often asked: how would the Communists act if a succession of Nationalist military disasters should put them in a position to assert their power? While the answer must obviously depend on time and circumstances, there are many who think it unlikely that the Communists would immediately try to seize control of the Central Government and establish a Communist régime for the whole country. The Communist leaders are well aware of the risks they would run in such an attempt—risks of administrative breakdown through lack of qualified and trustworthy men, risks of serious local rebellions through lack of sufficient reliable troops to police so vast an area. For that reason they are, in a sense, quite sincere in their assertions that they do not seek a monopoly of power and that their primary aim is to co-operate with other relatively progressive groups in a régime of rather free bourgeois capitalism, at least for several decades. How long that honeymoon phase would last before the Communists began to dominate the coalition would of course depend on a variety of factors, some of them international in origin. Similarly, in the military sphere, it is quite probable that the Communists, in the event of a Nationalist collapse, would deliberately choose to enter into a series of loose temporary alliances with certain provincial warlords, rather than try to take over, in one vast coup, the military control of all China.

Though often denounced as treacherous propaganda, the Communist claim that they are to-day the best friends of Chinese democracy and private enterprise is something more than mere hypocrisy. They know that the eventual triumph of their system in a backward economy like China's demands a much greater and faster development of modern industrialism and commerce than has yet occurred. They also know (and they exploit this to the full) that one of the chief worries of the ordinary Chinese business man to-day is the jungle growth of Government monopolies and bureaucrat-controlled enterprises, often run for the personal gain of a few favoured politicians and generals. This expansion of bureaucratic capitalism, which

occurred naturally enough during the war in west China where private industry was very weak, was greatly accelerated after the Government moved back to the coast and took over the rich prizes of former Japanese factories and properties. Profiting from inside knowledge and political favouritism, many highly placed persons in the Party and the Army made very lucrative deals in all kinds of business, ranging from real estate to electric power and river shipping. By far the juiciest of these political plums has been the huge China Textile Corporation, comprising all the former Japanese mills in China. Besides yielding a large revenue to the Government it has enriched numerous officials connected with it. Another enterprise which has been very profitable to certain individuals has been the shipment of coal, sugar and other raw materials from Formosa to the mainland. Still another has been the Yangtze River shipping, in which Chinese interests making unprecedented profits from high freight charges successfully blocked proposals to allow foreign shipping to trade at the inland ports of Hankow and Nanking—and at a time when China was desperately short of water transport.

Exact figures and facts in such matters are difficult to obtain and there is no way of proving the truth of the sensational stories, widely circulated and believed in China, that several of the leading personalities in the Government and the Army are deeply involved in these enterprises for their personal profit. Whether or not one accepts these charges, which are stated in their most extreme form in a much-discussed Communist book entitled *The Four Families of China*, there is no doubt about the great expansion of bureaucratic enterprise and the steady decline in the power and prestige of the never robust private business class. Before 1937 that class, particularly the more modern industrialists, managers and bankers, used to constitute a small but progressive and potentially important influence in the modernization of China. Though almost wiped out as a political force during the war, this group of technically capable people might, under reasonably favourable conditions, have revived and become a nucleus around which a liberal programme of reform and reconstruction could have developed. Such a development could hardly have taken place, however, without some outside aid, particularly from foreign capital. It is ironical, therefore, that the United States, which is now the main citadel of private enterprise in an increasingly collectivist world, should have pursued policies in China which, whether intentionally or inadvertently, have served to strengthen and entrench the Chinese economic bureaucracy and thus still further block the recovery of Chinese private business. American credits, American lend-lease (continued long after the end of the war), American army surplus property turned over to the National Government, even many parts of the UNRRA supply programme, have all had the effect of intensifying the concentration of economic power in the hands of government and party leaders.

In some respects, of course, this development is inevitable. It is to be expected in all countries at war and is certainly not surprising in a land like China, where the power of bureaucracy is so deep rooted in tradition. But without in the least assuming that China could or should follow the path of

Western nineteenth-century free enterprise, one may well feel some alarm at policies which put such difficult new obstacles on top of the age-old barriers impeding the growth of a modern middle class, which the nation so badly needs. Without such a class and without some modernized sectors of economic life to support it, there can be little hope for the emergence of even a rudimentary democracy in China. Accordingly, there are good grounds for arguing that foreign, especially American, aid to China should be given under conditions which would particularly benefit the private business groups and check the further proliferation of bureaucratic enterprise. This is not to suggest that the Chinese business man is innocent of corruption and short-sighted policies: far from it. Yet, by and large, it is true that this group has within it the possibilities of more rapid and progressive leadership than the Nanking officialdom. Even in the event of a revolution this same group would, as the Communists admit, have to play a leading rôle in the nation's development, at least for twenty or thirty years.

Resuscitation of the moribund Chinese business class may seem a precarious foundation on which to start the modernization and reform of China. Precarious it certainly is, but without such a foundation it is folly to talk of establishing a "liberal" régime in China and of averting a destructive, but still probably abortive or inconclusive, revolution. Without such a foundation, too, the "democratic" political groups, whether in the minor parties or in the more moderate wing of the Kuomintang, can never hope to be more than a handful of powerless leaders with no following.

The Centralization of Authority

MONOPOLY and centralization of power in China have not been limited to the economic world. They are manifest also in the nation's political structure.

At a time when the basic issue for the National Government is no longer whether it can expand its authority over all of China but rather whether it can survive at all as a going concern in its own home base of the Yangtze valley, it is ironical to find how completely and unrealistically the doctrines of centralized administration continue to dominate the party and the Government. Whether in the sphere of economic planning (and there have been dozens of admirable but politically impossible plans) or educational policy or local government reform or the administration of the vitally important new territories of Formosa and Manchuria, one sees the same obsession for methods which require nearly all decisions, often on the most trivial matters, to await the nod of a handful of army or party favourites in Nanking or Shanghai. And since these functionaries are themselves often competing for the same spoils, all too often the final ruling must be referred to the Generalissimo himself. It is almost impossible for the ordinary Western reader who has not actually observed the National Government at close range during the past two years to imagine to what absurd lengths this process is carried. Even under a man as able and modern-minded as Dr. T. V. Soong, the inability or unwillingness of quite senior officials in the Executive Yuan to take action without his personal instructions on the most minute details has evoked feelings of

alternate amazement and despair in the minds of foreign observers and advisers. Repeatedly such advisers have heard a highly competent senior official confess, in private, that he dare not openly convey to his Minister or party chief adverse comments on a proposal on schemes which he knows to be unsound or unworkable. The effects of such a system, through the paralysis of initiative and the fear of accepting responsibility on the part of local officials everywhere, are tragically evident in all parts of China to-day. Nowhere are they more harmful and ludicrous than in the educational bureaucracy of the National Government. Here, despite unbelievable shortages of teachers, equipment, books and buildings, and despite an extreme need for giving the maximum of freedom to improvise methods to suit the widely differing local circumstances, the Government persists, not only in prescribing from Nanking the most detailed, rigid systems of instruction, administration and examination, but also in using the educational system as a means of political indoctrination, espionage and "thought control" through the Youth Corps and student informers.

Let it be admitted that the evils of centralization are not peculiar to China and that China is not the only land where all major and many lesser decisions of national policy depend on the whim of a totalitarian "leader". Admit also that one could hardly expect a country like China, with its age-long traditions of bureaucracy and government from above, quickly to adopt a Westernized federal system of administration. Yet the fact remains that Nationalist China, simply in the interests of its own survival, cannot afford to persist in this mania for controlling everything from Nanking. Even with a loyal and highly trained civil service ten times larger than it now possesses, a nation so extensive, so diversified, and lacking an efficient network of transport and communications could hardly be administered effectively under a unitary, monolithic form of government. Even the Soviet Union, the epitome of the centralized State, with all its administrative "steel frame" of civil servants and party officials, has acknowledged the need for federalization and decentralization to a far greater degree than China.

All this is far from being a long-term or academic problem. It has the most immediate bearing on Nanking's dilemma to-day: how far to persist in the hitherto futile attempt to establish a centralized Kuomintang hegemony over all China by military means or to concentrate, at least for the next five or ten years, on a policy of rebuilding and reforming the relatively safe and wealthy areas of the lower Yangtze while permitting a much greater degree of local autonomy in more distant provinces and thereby (let us admit it frankly) concede in effect the control of most of North China and Manchuria to the Communists. It is a bitter decision to have to make. To renounce, even for a few years, the hopes of regaining by conquest the more economically advanced North is something that many of the generals and Kuomintang chiefs will resist in every way, since for many of them it means the loss of valuable prospective spoils, not to mention a great enhancement of the power and prestige of the Communists. Yet the alternative—the continuance of the present ineffective but costly campaigns against the Communists—is one that increasingly whittles away the strength of the already

weak Nationalist armies and undermines both economic recovery and public morale in the base areas of central China. More and more the Government finds its freedom of choice restricted to the elemental issue of mere survival.

Dreams and Realities

UNLESS this grim fact is kept in mind, the outside observer of Chinese affairs may easily find himself drawn into discussions of an utterly unreal world of economic reconstruction (with Yangtze dams and huge heavy industry developments) or political reform (complete with constitutions and representative assemblies)—a world far removed from the real China around him, in which UNRRA industrial equipment brought in without charge is left to rust or illegally diverted to private use, where the adoption of constitutional government is solemnly announced for the end of 1947 at a time when arbitrary and harsh requisitioning of men, animals and crops for the prosecution of the civil war has been renewed on an unprecedented scale. In this cloud-cuckoo-land it is all too easy to confuse hopes with accomplishments, to regard the blue-print as if it were the factory in operation, to become absorbed in how to find foreign markets for the industrial exports of the new China, while forgetting the scores of small existing plants which are going out of business every week in the steady decline of an industrial output already pathetically low. The deception is all the easier because the plans are often sound in conception and technically admirable in detail and because the engineers and administrators who have drafted them know that, given half a chance or even a brief respite from political and military anarchy, the projects could be put into execution with immense benefit to the public and profit to the Government.

This last point is worth underlining. For any long-run programme of modernization China is sadly deficient in an adequate corps of technicians, modern administrators and skilled labourers. Perhaps most of all she lacks managers and foremen and the schools in which to train them. Nevertheless this scarcity is not her real problem for the present. Strange and tragic as it must seem, China to-day cannot effectively use her small supply of engineers and administrators. Because of military confiscations, because of mounting internal costs and the Government's constant inability to divert funds from war purposes to reconstruction, hundreds of useful enterprises, which are supposed to be producing much-needed equipment or consumer goods and employing technicians and skilled workers, are idle or operating at only a fraction of their capacity. Technical skills and organizational "know-how", often acquired abroad at great expense, are wasting away along with the idle machines.

This fact, that a country so hungry for both capital and consumer goods should be incapable of utilizing its own small existing industrial capacity, is difficult for the outside observer to grasp, but it is confirmed on all sides by the testimony of foreign engineers, UNRRA experts and (in private) by many Chinese economists. What is more significant, there is mounting evidence to show that many of the ambitious government schemes for supplying China with heavy capital equipment from abroad have been

ill-advised and harmful. Again and again one hears how such equipment, obtained at great cost and difficulty, lies unused on docks or in warehouses because the Government literally cannot find the funds to transport, assemble, house and maintain it. This has been true of much UNRRA equipment and it applies even more to the heavy, and often quite unsuitable, equipment which China acquired from the American Army in Okinawa and other Pacific islands but which she is now finding it financially impossible or inadvisable to transport to the mainland. The same considerations hold good for China's ability to receive reparations from Japan. Strange as it may seem, the earlier optimistic schemes for transferring whole Japanese industrial plants to China, and for taking large quantities of Japanese machinery, are now seen to be too costly and unworkable, though the Government continues to voice its demands for a large share of such reparations. It has been extremely difficult, in fact, for the Chinese authorities to discover Japanese reparation goods which they could afford to take without involving the Government in heavier additional expenditure than it could afford at present. For similar reasons it is now evident that, even without the political uncertainties in Manchuria, the Chinese would be unable for a long time to come to make effective use of the very considerable industrial plant of that area which remains after the Russian looting and removals. China had every reason to feel bitter over the Russian actions there, but it is doubtful indeed whether she could have used much of the heavy Manchurian industrial plant, geared as most of it was to the Japanese economy, and dependent on Japanese technicians and managers.

It may be said that these difficulties of absorbing new capital equipment are merely the temporary results of civil war and inflation. That is partly true, and the Government could prove it if it had the will to divert to economic reconstruction a part of the 80 per cent of the national revenue which now goes for war purposes. On the other hand, the roots of the problem lie much deeper in the very nature of the Chinese economy. Even under more favourable political conditions one must realize that China's economic capacity to utilize foreign capital goods is extraordinarily limited. The costs of employing such equipment—and especially much American equipment—are simply too great for a country which in the best of times has such a slender margin of real surplus wealth over the requirements for bare subsistence. The more responsible Chinese planners now concede this point and recognize that economic reconstruction will have to proceed more slowly and on a far more modest scale than the grandiose official plans would indicate.

Extraneous Influences on Society

ORTHODOX discussion of Chinese economic and social problems always runs the risk of being vitiated by the intrusion of extraneous political factors. That risk is so great to-day that arguments based on the reasonable assumption that the Chinese leaders are trying, however fumblingly, to advance the general welfare of the people are often likely to prove grotesquely wrong. And those who start from the cynical premiss that all policies of the

Government are designed primarily to increase the power or fortunes of a few party or army chiefs will often find themselves making surprisingly accurate predictions of future events. Two noteworthy illustrations of this may be cited—all the more illuminating because of the human tragedy in them. The first is the National Government's sorry record in Formosa. Here the Chinese had a unique opportunity to demonstrate, under very favourable conditions, their capacity for reasonably efficient and just administration of a people who by history and racial affiliation were predisposed to be friendly. Instead, the Government permitted a horde of political favourites and carpet-baggers from the mainland to exploit and loot the island in the most unbridled fashion and then, when the Formosans rebelled against some of the exactions, shot them down in a brutal campaign of repression. The second example is the story of the diversion of the Yellow River back into its old course. Of all projects in the UNRRA programme this had seemed to be most unquestionably beneficial to Nationalists and Communists alike and least susceptible to political sabotage. For a long time, indeed, the project was an inspiring example of co-operative endeavour. But in the end the decision to close the gap in the dyke and send the river along its old bed was made not by the engineers but by the Nationalist army authorities, mainly as a tactical move in the campaign against the Communists in eastern China. It was done at a time when the farmers located in the path of the water had not been given adequate opportunity to resettle and to repair the dykes along the new course of the river. Worse still, Nationalist planes for weeks strafed the labourers in the Communist territories as they worked on the dykes.

An adequate discussion of the extraneous political factors in China is beyond the scope of this article, but three points must at least be briefly mentioned. First is the continuing influence of the cliques within the Kuomintang, and, along with this fact, the constant effort of the Generalissimo to keep these factions counterbalanced. It is characteristic that at the present time, when, partly from a need to please the American Government, a politically "moderate" Premier has been put into office, the Generalissimo has permitted the right-wing "C.C." clique of the Chen brothers greatly to strengthen its position in the party, in the local governments and in many of the key sectors of the financial world. Second is the fact that the army, despite all the admirable plans for constitutional civilian government, continues to have an overwhelming influence in the economic life and political administration of the country. Provincial governors are almost invariably generals; the decisive voice in local administration is that of the local commander; the mayor of a city is always at the mercy of the garrison commander and the gendarmerie; orders from Nanking government departments are sabotaged or disregarded by army officers in the field; and the army is above all the hotbed of official corruption—so habitual as to be worthy of comment or criticism only in the most flagrant cases. Thirdly, and this is of unique importance in the present international scene, China is in the difficult situation of being officially one of the big Powers but in reality almost a dependant of the United States and being located on the frontiers of America's chief

antagonist. The consequences of this relationship may be fateful. They manifest themselves not only in all aspects of Chinese foreign policy but also in many internal developments. Every important step by the National Government is taken with an eye on Washington and with an estimate of the current state of American-Russian relations or of the probable trend of sentiment in a now Republican Congress. American arms, planes and credits are indispensable for the prosecution of the civil war; and so American advice and criticism (often bluntly expressed, as they were even by as friendly an observer as General Wedemeyer) on the reform of the Chinese Army and Government must be swallowed with a good grace. American correspondents who continue to report unpalatable truths about the Chinese scene must be permitted to function without too obvious interference. Having failed to obtain the long-sought loan from the U.S. Export-Import Bank before the credit lapsed in June 1947, the Chinese must now watch the steady diversion of American financial aid to Western Europe, rather than Asia.* Most unwelcome of all, China must watch her ex-enemy Japan becoming the pampered ward of the United States and being described by American army officers (sadly disillusioned about the earlier dreams of building China into a strong military ally) as the only Asiatic country they can make into a trustworthy American bastion against the Soviet menace.

That China, beset with internal feuds which threaten her very existence, and caught between the two opposing steam-rollers of the United States and the Soviet Union, can continue so plausibly to sustain her nominal rôle in the United Nations as one of the great Powers is an astonishing tribute to the talents of her diplomats.

He would be a rash man who would predict the political future of this convulsed nation. Some will argue that her present disorders are the natural product of the war and not essentially different from the many troubles from which she has successfully recovered in past centuries. But to most observers to-day China stands on the brink of a much greater disaster threatening her very nationhood. One recalls poignantly the prophetic words in Sun Yat-sen's will: "The revolution is not yet finished." Unless China's own leaders and her foreign friends have the wisdom to aid and not thwart the still incomplete social revolution, her future is dark indeed. China is a nation in travail. The agonizing process of birth cannot be stopped, and no one can yet say whether those who attend her can deliver a healthy child.

* This statement is confirmed rather than invalidated by the announcement, on November 11, that the State Department is proposing financial aid for China at the rate of 20 million dollars a month for 15 months starting in April, 1948 (in addition to earlier recent grants totalling 60 millions). Apart from the modest size of this aid in comparison with that requested for European countries, it is significant that the Secretary of State felt obliged to comment that there was no firm basis at present for the rehabilitation of China owing to the inflation and the fact that 75 to 80 per cent of the Chinese National Government Budget is spent for military purposes. He also implied later, in response to questioning, that General Wedemeyer's Report, which is not to be released, is highly critical of certain aspects of the National Government. Despite great pressure from certain Congressional quarters and from Mr. Henry Luce, it is clear that the State Department does not feel that the present Nanking Government is a good risk for large-scale financial aid.

RESIGNING THE MANDATE

PALESTINE BEFORE THE UNITED NATIONS

THE destiny of Palestine must depend in the long run on certain sociological and geographical factors which can to some extent be calculated. Its immediate future, however, will be determined by political decisions due to be taken within the next few months or weeks by the General Assembly of the United Nations, by the Mandatory and by the two contending parties. It needs a great deal of optimism to believe that a final settlement can be reached without some bloodshed; but the wisdom or unwisdom of the decisions taken may decide whether this is to be a senseless waste of life or the last painful adjustment by which the perilous balance of forces under the Mandate makes way for a more stable and lasting régime. Nobody can foretell what the decision will be; the most that can be attempted is to bring the problem into focus and form an estimate of the various forces at work.

On February 3, 1919, the Zionist Organization submitted certain proposals to the Peace Conference at Paris. These envisaged the ultimate formation of a Jewish Commonwealth whose frontiers were to include Transjordan and south Lebanon (as far as a line running eastward from just south of Sidon) in addition to Palestine west of the Jordan. This commonwealth was, in Dr. Weizmann's words, to be "just as Jewish as America is American or England English". The proposals were not accepted; instead there issued the Palestine Mandate. This gave the Zionists (having regard to the small percentage of the population which they formed at the time) a privileged position, politically, economically and linguistically, in Palestine west of the Jordan, and ordained that Jewish immigration and land settlement should be encouraged in so far as such action would not prejudice "the rights and position of other sections of the population". With the help of the Mandatory, the Zionist Organization was thereby enabled in a quarter of a century to increase the Jewish population from one-tenth to one-third of the whole and to form a Hebrew nation in embryo. The exclusive and expansive character of the community thus formed provoked the violent hostility of the non-Jewish majority; this in turn created such an impossible situation for both Mandatory and citizens that the British Government finally laid the whole problem before the United Nations and later announced their intention of withdrawing from the country at an early date, unless the parties, faced with this new prospect, were brought to an agreement and asked them to remain.

Many things originally obscure became clear to the British Government and people during this long and often painful experience; as the result of the recent developments, they are now becoming clear also to the United States and to the other countries composing the United Nations.

At the beginning of the Mandatory period the total incompatibility of Arab and Zionist aspirations was not realized. The Mandatory acted on the

assumption that sooner or later the common interests of the two parties would lead to the establishment of a binational independent Palestine. Others may have felt that either the Zionist project would fail from lack of enthusiasm or Arab opposition would yield before Zionist insistence. Insufficient allowance was made, on the one hand, for the great progress which the Arab world was about to make and on the other for the catastrophic possibilities latent in central European and Nazi anti-semitism.

The Post-War Phase

THE present position is that a Special Committee of the United Nations has put forward two proposals. One, supported by seven members, advocates the admission of 150,000 Jews in two years and the establishment under British supervision of independent Jewish and Arab States. The other, supported by three members, envisages a Federal State, formed of separate Jewish and Arab States, each of which would have its own legislature. Now if we examine these and all other solutions put forward for the future of Palestine, we find that they fall into three types—the Arab solution, which is an Arab State in all Palestine, the Zionist solution, which is a Jewish State in part or all of Palestine, and a number of variants of the Mandatory system. The latter, whether under the form of a unified Mandate or a cantonal or federal system, all envisage a continuance of Jewish immigration and land settlement on a scale such that the political future of the country will be rendered uncertain whatever paper guarantees might be given to the Arabs. This criticism applies to some extent even to the Federal-State plan of UNSCOP*, for here, too, we find provisions for Jewish immigration over a period of years, before the Federal Government with its Arab majority is authorized to take measures to safeguard its position.

It is therefore not surprising that all these projects have been rejected by the Arabs, as was the White Paper at the time of its issue; at the same time, it is understandable that they are equally unacceptable to Zionists, because they offer them even less assurances. The Mandatory has made it clear that he cannot, unaided, take the responsibility of implementing any such plan, because it will imply the use of force against one party or the other; nor, in view of his experience, is it likely that any other power or body will undertake the task unless it can be assured of the support of at least one of the contending parties. As the plan for earmarking all Palestine as a Jewish State is regarded outside Zionist circles as quite impracticable and is not even pressed by the Jewish Agency, Partition, the establishment of a Jewish State in part of Palestine, which has been widely represented as a reasonable compromise, has come again into favour. Analysis, however, reveals clearly that this project from the Arab point of view is open to the same objection as other proposed solutions. It is no doubt a compromise in the sense that it gives the Zionists very much less than they had hoped for under the Mandate. Yet to the Arabs it appears a compromise like that which the Czechs had to accept at Munich; for whatever paper guarantees may be offered, Arabs are not likely

* United Nations Special Committee on Palestine.

to misunderstand the meaning of such statements as that made by the Chairman of the Jewish Agency Executive, after the discussion of the earlier partition plan by the Zionist Congress. "The debate", he said, "has not been for or against the indivisibility of the Land of Israel. No Zionist can forgo the smallest portion of the Land of Israel. The debate discussed which of two routes would lead quicker to the common goal." The Arab idea of a compromise, on the other hand, is a cessation of Jewish immigration in return for Arab acceptance of the Jews already in the country and their recognition as citizens enjoying the full rights enjoyed by other citizens of the State. It is, in fact, clear that in the UNSCOP plan, as in that of the Royal Commission, the first consideration was the creation of a viable Jewish State. The Arab State, therefore, could only be formed out of whatever was left over. Since this rump obviously has neither the will nor the resources to become a State, it must eventually be absorbed either by the Jewish State or by a neighbouring Arab country. The latter possibility is, however, ruled out under the UNSCOP scheme by an ingenious system of treaties and the establishment of a joint economic council. These devices ensure that the Arab State shall develop within the economic orbit of the more industrialized and richer Jewish State. Since, however, the principle of partition has the support of America and Russia, as well as of the Zionist Organization, and is being further elaborated by a committee on which they are both represented, it appears quite possible that it may obtain the necessary two-thirds majority. The assumptions upon which it is based and its prospects are therefore worthy of fairly detailed consideration.

An Anomaly and its Justification

SUPPORTERS of Partition are for the most part ready to admit that the creation of a Jewish State, in the heart of the Arab world and against the will of the majority of the inhabitants of Palestine, would be an exceptional proceeding hardly in accord with ordinary international practice. Against this, it is pointed out that the Jewish case is unique. Zionist doctrine, basing itself on the undeniable fact that the Jews of to-day are the adherents of what was originally the national religion of a Palestinian people, claim that the sufferings which Jews have undergone, for nearly two millennia, are due primarily to the separation of the people from their native soil. This theory seems to assume that Jews are a specific nation, set apart and possessing certain characteristics which prevent them from living happily among other nations or being assimilated to them; nor, according to this view, can Jews without statehood make the full and distinctive contribution to civilization of which they would otherwise be capable. It is of course true that adherence to Judaism implies adoption into the community of the Israelites or sons of Israel. But it is surely not legitimate to deduce from this that Jews are a homogeneous nation, still less a race, distinct from the rest of mankind. Like other human groups, Jews living together in a particular territory, and intermarrying, tend to produce certain recognizable physical types; yet there is no more physical resemblance between a typical Polish and a typical Yemenite Jew than there is between a typical English and a typical Abyssinian Christian.

The tremendous enthusiasm for the idea of a Jewish State by which so many Jews are moved to-day is due to an understandable but none the less hysterical reaction to persecution rather than to a common Palestinian origin. The surest and most humane method of relieving this hysteria, and thereby the pressure on Palestine, would certainly be the admission of displaced Jews on a large scale into the New World and elsewhere. Such action has in fact been urged on the United Nations by the British Government, though not perhaps with all the necessary emphasis and vigour. Once this pressure had been relieved, the existence of a Jewish State would no doubt be a source of satisfaction to Jews in the Diaspora, in the way that the existence of Protestant States is a source of satisfaction to Protestants living in non-Protestant countries. Its existence would moreover provide a possible refuge for a limited number of persecuted Jews, just as Protestant England once did for the Huguenots. The proposed Jewish State will, however, be nowhere near large enough to receive all possible Jewish refugees, nor can it hope to solve the Jewish problem in general. The National Home is in reality bringing into being a new type of Jew—the Hebrew-speaking Palestinian Jew. Some of his co-religionists, attracted by this ideal, will join him in Palestine; but the majority, when persecution is not acute, will simply feel the same pride about Jewish Palestine as an American Catholic, to take another example, feels about Italy. Whether the gain to Jewry would be so great as to justify the very unusual proceeding of creating by immigration, against the will of the majority and that of the inhabitants of the neighbouring lands, a State of a particular religious persuasion is surely questionable. It is significant that the Anglo-American Committee, which, alone of the many commissions on Palestine, discussed this point at some length, did not pronounce in favour of the establishment of a Jewish State.

Granting, however, that the creation of a Jewish State in Palestine (for Zionists do not wish it elsewhere) is an objective of overriding importance, is the project, in fact, practicable? Here, again, it is not easy to give a simple answer in the affirmative. In the first place, though the UNSCOP plan allots most of the wealth and resources of Palestine to the Jewish State, it is not certain that the territory would be large enough or rich enough to support a State such as the Zionist plan predicates. The State will come into existence with two tremendous problems on its hands—the assimilation of a hostile minority, almost as numerous as its Jewish citizens, and the absorption within a period of two years of immigrants amounting, perhaps, to a quarter of the total existing population. It will have to deal internally with a body of terrorists who regard the acceptance of partition as a betrayal of Zionism and who will tend to urge aggressive action to enlarge the State territory. Externally, it seems certain that the Jewish State will be involved in war, declared or undeclared, with all the neighbouring States—primitively organized, it is true, but none the less formidable—who will, moreover, possess as allies within the State a fifth column amounting to half the population. In this connexion it is of some importance that the one original contribution of UNSCOP to the discussion on the Palestinian problem was their statement that "it cannot be properly contended that the use of force as a means of

establishing the National Home was either intended by the Mandate or implied by its provisions". Yet nobody supposes that the Jewish State can be established without the use of force.

On the other hand, the Jewish State will be enormously strengthened by the fiat of the United Nations (if the proposal is approved), and possibly it will have the backing of some international force. Whether or not such a force can be brought into being and function satisfactorily, in view of the existing tension between the U.S.A. and the Soviet, is, however, another matter of doubt. The formula agreed on by the U.S.A. and the U.S.S.R. on November 10 makes the unjustifiable assumption that Arab resistance to Partition will be negligible and that British forces will be available to overcome whatever opposition there may be. The moral effect of the decision will, moreover, be weakened by the suspicion that one great Power has been influenced in its attitude by a factor of internal politics—the need of conciliating Jewish votes—while another, which opposed Zionism as long as it considered the movement to be a handmaid of British influence, has only turned to support it when such action seemed likely to embarrass Britain. Other States favourable to Partition have obviously been influenced by the unsatisfactory relations existing between their own Jewish and non-Jewish citizens, by the desire to salve their consciences for denying admission to Jewish refugees or by the hope of finding an outlet for those of their Jewish subjects whom they consider to be "surplus". These considerations must detract a good deal from the impression created by their declarations of sympathy for the Zionist ideal, even though no one can doubt that the heroism displayed by the Zionists in the colonization of Palestine and the work accomplished there is a major factor in world support for Zionism. Another point of significance which must weaken the effect of Western approval of Partition is that the Eastern States, who have not the uneasy conscience of the West in this respect, look like declaring themselves unanimously on the other side; for the Arab States seem assured of the support of Iran, Afghanistan, India, Pakistan and Siam, and probably also of China and Turkey.

Is there an Alternative to Partition?

IF Partition is not accepted, there appears no other alternative but the establishment of a democratic State of Palestine, with an Arab majority, and, in fact, a second U.N. Committee, though composed almost entirely of Arab States, is considering such a solution. The objection to the Arab proposal in the eyes of all who sympathize with Jewish-Zionist aspirations is that, while it might allow the maintenance of existing Jewish agricultural, social, cultural and municipal institutions, it would put an end to the Zionist hope of an ever-growing National Home with statehood as the ultimate objective. Mortified by such a disappointment and having to co-operate as a minority with a relatively undeveloped people, whom the recent past has rendered hostile and suspicious, the whole National Home might be in danger of withering away like Jonah's gourd. The Palestinian Arabs have, as the result of the Mandate, had no opportunity of practising

the arts of government or even of administration at the higher levels. Like the Jews they, too, have their internal stresses. Ever since 1936 these have manifested themselves in a series of assassinations, of which the recent murder of the young labour leader Sami Taha was a particularly deplorable example. For these outrages members of the dominant clique, and particularly the Mufti, have often been accused of responsibility. On the other hand, the United Nations could no doubt help during a provisional period with experienced administrators. The Arab League, too, would have every motive to use its influence to ensure fair treatment for the minority and to put an end to intestine Arab strife. The imposition of such a solution upon the Zionists would, however, be exceedingly painful and would certainly be regarded by the majority of the United Nations with the greatest distaste. Nevertheless, it is hardly to be doubted that such a solution could be imposed. Much as the National Home owes to the energy and skill of the Jewish immigrants, its establishment was nevertheless only rendered possible by international approval of the project and the support of the armed forces of the Mandatory. The basis of the National Home is so artificial that it could not hope to stand against concerted economic measures. While the extreme terrorist elements would no doubt do their worst, it is hardly conceivable that Hagana would be brought into operation in such a hopeless case. Zionist leaders would have no choice but to make the best terms they could. That they will, however, be willing to consider any further concessions is most improbable after the declaration by the U.S. and the Soviet in favour of Jewish statehood.

We are therefore left with the fact that only two solutions are at the moment under consideration by the United Nations. The first—the creation of a Jewish State in part of Palestine—is likely to command a majority of votes, though not necessarily the two-thirds majority necessary to make it effective; but its implementation, even if approved, is likely to be exceedingly difficult. The other—an Arab State—though more possible to implement, is very unlikely to receive the necessary approval. In this case, if, as seems certain, the Mandatory maintains his decision to withdraw, Arabs and Jews will be left face to face. In these circumstances it is just possible, though not probable, that the two parties will ask the Mandatory to remain. More probably, however, they will decide the issue by a trial of strength, with the help of such aid as they can find from outside the country. Meanwhile, much suffering will be inflicted on innocent people.

In these discussions Britain, from being the protagonist, has voluntarily assumed the position of a spectator, or, shall we say, of the chorus in a Greek drama. Fine and desirable as it would have been that Britain should lead Palestine to final peace and stability, if it is a fact that the establishment of a National Home, such as the Zionists conceived, is incompatible with safeguarding the position of the Arabs, then withdrawal is the only honourable course. According to the letter of the law, a Jewish National Home has been established; yet there is no doubt that the words and actions of Lord Balfour, Mr. Lloyd George, General Smuts and other eminent statesmen, though they may not have been expressing the considered views of the Government, did raise hopes of statehood in Zionist hearts. And while, according to the

letter of the law, the position of the Arabs has so far been safeguarded, yet there is no doubt that British words and actions did cause the Arabs to believe that we had pledged ourselves to help them to independence. Further to fulfil the aims of either party would therefore be regarded by the other as a betrayal; on the other hand, it has become too costly in human life and in reputation to carry on as in the past. While there is therefore no alternative to withdrawal (unless the two parties come to an agreement) yet much will depend on the manner of this withdrawal. Failing any U.N. authority to whom to hand over, we should prejudice the issue if we handed over authority to either the Jewish Agency or the Arab Higher Committee. It has been suggested that the best solution would be the nomination (however belated) of Arabs and Jews as heads of departments and the handing over of responsibility, in so far as this is possible, to a committee of, say, the ten senior Arab and the five senior Jewish officials. Thereafter, the inhabitants of Palestine would have to settle their own affairs.

In past discussions the strategic importance of Palestine has often been exaggerated. Haifa Port is no substitute for Alexandria, and if the exit of the pipe-line is in Palestine, the source of the oil lies in Iraq. It is the friendship of the Middle East as a whole which is important, not the retention of one territory at the expense of antagonizing the others. Nor can Palestine stand comparison with Egypt as a war-time base. It was Egypt's excellent sea communications with the West and East, the accommodation and the railway facilities which she affords, her abundant man-power and her agricultural resources which made her co-operation invaluable in two World Wars. Palestine, at the best, could be little more than a useful but minor subsidiary. It was Dr. Weizmann himself who pointed out to a Zionist Congress years ago that it was to British intellectuals and not to the Service chiefs that Zionists should look for support.

In 1919 Britain found Palestine a neglected Ottoman province, with a population of 750,000, ridden with disease, virtually without roads or modern facilities of any kind. To-day, after twenty-eight years of British administration, the population amounts to nearly 2,000,000 and the country is equipped with all the apparatus of a modern State. If by our presence we have not been able to put the finishing touches to this work, and weld two warring nationalities into one, is there not merit in attempting to achieve the end by the only alternative left to us, the decision to withdraw?

THE DOMINION OF CEYLON

THE tremendous and sometimes tragic events that have heralded the genesis in South East Asia of three great new States, one completely independent and two still within the orbit of the British Commonwealth, have tended to eclipse the emergence of another independent state in the island of Ceylon, which is only about the size of Eire, though with more than twice its population. To this island, as the culmination of a process of constitutional development which began in the 'thirties of the last century and, after stagnating for some ninety years, went ahead with speed after the end of each of the two world wars, the Secretary of State for the Colonies last June announced the grant of a degree of political freedom which has since been defined as Dominion Status within the British Commonwealth—though he did not make this perfectly clear at the outset.

The purpose of this article is to review the general situation since the dissolution of the old State Council last July, and to consider how far the complacency shown by the official spokesmen of the Colonial Office is justified.* Mr. Creech-Jones's words were that Ceylon "will, I am sure, fully enter into the spirit of co-operation which is characteristic of the relationship of members of the British Commonwealth with one another": though his Under-Secretary was rather more realistic when he indicated that before "fully responsible status" was conceded agreement would have to be reached on a number of points—later stated by the Governor of Ceylon, on his return from a visit to London, to be three: defence, external affairs and the position of the public services.†

The first and presumably the only general election to be held under the "Soulbury Constitution" ended on September 20, with rather indecisive results. Properly to understand these, it is necessary briefly to review some foregoing events. During 1946 Mr. Senanayake, Leader of the State Council, and the other elected members of the Board of Ministers, with most of the State Councillors, decided to form a party under the name of the United National party, whose apparent object was to fight the general election on their past record. They expressly disclaimed anything in the nature of a communal outlook and attracted to their ranks most of the Muslim community and a minority of the Ceylon Tamils. The bulk of the latter, however, led by Mr. Ponnambalam, President of the Tamil Congress, did not lose their nervousness of Sinhalese domination,‡ and were not to be drawn in. The Ceylon Indian Congress, too, were not satisfied with the lack of effort that had been made to solve the thorny problem of the franchise for resident Indian Tamil estate labourers, on which negotiations between the leaders of India and Ceylon had broken down in 1945. Both those bodies therefore

* Hansard, vol. cccxli, No. 152, July 29, 1947, Debate on Colonial Affairs.

† The text of agreements on these three points has now been published (Cmd. 7257), and the Ceylon Independence Bill was read a second time in the House of Commons on November 21.—*Editor*.

‡ THE ROUND TABLE, No. 141, December 1945, pp. 56-63.

put forward candidates on a definitely communal ticket. The Communists, of whom there were three sections, divided in part by personal rancours and in part by somewhat differing ideologies ("Trotskyists" and "Stalinites", the former the more numerous), concentrated most of their efforts on the comparatively prosperous south-west, where they expected to exploit certain caste feelings, and on the towns, especially Colombo. Finally, a large number of candidates put up as Independents in some of the more remote constituencies uncontested by any party candidates.

The general impression current in the country before the elections was that the United National party was merely an organization to keep "the old gang" in power and to sweep the electorate, after which it would probably break up into competing cliques. This gave it a certain unpopularity; but of greater significance was an upsurge of labour unrest. The trade-union movement in Ceylon has for the most part been a somewhat artificial growth, and in recent years has been fostered and largely led by middle-class "intellectuals" of Communist proclivities. In October 1946 there was a strike of bank clerks, followed by railway, harbour, road transport and other workers. This was short-lived, but not entirely unsuccessful. In May and June last there was a less widespread but more serious set of strikes, involving a large number of Government clerks, municipal employees, and workers in the harbour, the oil installations, and the tea and rubber trades (not the estate workers, however). For a time feelings ran high, part of the Defence Force was called out, and on one occasion the police found it necessary to fire on a procession and a Government clerk was killed. Emergency legislation was rushed through the State Council by which the powers of the police were increased, and the Government given very wide discretion in the event of a declaration of emergency. The implied threats and the lack of union funds caused the strikes to fizzle out rather quickly, but before this the Colombo Municipal Council had weakly given way to the strikers' demands *in toto*, even conceding them strike pay. Neither the Government nor the private employers took much action against the strikers, but the little they did caused the former some unpopularity, sedulously fostered by the Communist leaders.

The Elections

THE elections passed off quietly, and only six murders and a few assaults have been ascribed to election quarrels, as against fifteen murders in 1936, the last general election. The administrative organization was efficient, and the work of the police was impartial. There seems to have been a considerable amount of organized impersonation, some intimidation and possibly some bribery, but the old evil of the sale of ballot papers was eliminated by revised electoral rules. There has been a spate of election petitions. The main grounds of these have been those just mentioned, together with infractions of the rules against treating and the illegal use of transport in bringing voters to the polls. Electoral morality is probably, though not surprisingly, no higher than that of Britain before the first Reform Act. Fifty-eight per cent of the registered voters polled, which is a reasonably high proportion, considering the lack of political education among the electorate.

The United National party did less well than had been generally expected, securing only 42 seats out of 95. Their comparative failure was due in part to the "swing of the pendulum", in part to over-confidence and in part to inadequate electoral organization and propaganda: several seats were lost by split votes where more than one party candidate stood for the same constituency. The Communists reaped the reward of their concentration on certain areas, though they were less successful in the towns than in the coast and rural constituencies of the south-west, on the recent labour unrest, and on the well-known type of propaganda designed to appeal to the illiterate poor—the hope of "making the rich poor and the poor rich"; this was strong enough in many cases to override the appeal made by the United National party of religion in danger from the supporters of anti-religious Russia, which perhaps they somewhat overdid. The three sections of Communists between them obtained 18 seats, since increased to 20 by two Independents who have gone over to them. The Tamil and Ceylon Indian Congresses were in general successful, obtaining 7 and 6 seats in the north and centre of the island respectively. The Labour party (non-Communist) candidates all failed, except their leader, who was returned at the head of the poll for a three-member Colombo constituency. The remaining 20 were Independents. To these must be added 6 nominated members, of whom 4 are Europeans and 2 Burghers, making a total of 101. Many of the elections were without doubt decided on personal and local considerations: no less than 3 former Ministers and 22 State Councillors suffered defeat. On the other hand, the three principal Ministers all won by very large majorities.

One of the principal significances of the election is the breakdown, perhaps temporary only, of communalism, except in the Tamil north and among the Indian estate labourers. This is largely due to the rise of the Communists, a group of parties based on an economic division, even though most of their successes have been in the mainly Sinhalese south-west; the professed anti-communal basis of the United National party may also have contributed.

It is a point of some interest that whereas the old State Council Chamber was arranged on the continental model, semicircular tiers of seats around the Speaker's chair, it is now rearranged as the Chamber of the House of Representatives on the model of the House of Commons, with a gangway down the middle, and the Government and Opposition members facing each other. It is perhaps unlikely that a complete two-party system will emerge.

Government and Opposition

MR. SENANAYAKE, as the leader of the largest party, was naturally called upon to be Prime Minister and to form a government. He has appointed 14 Ministers, each with a Parliamentary Secretary (only 9 of the latter have been, at the time of writing, selected). Some of these, possibly 2 of each, will be chosen from the Senate of 30 members, whose composition is about to be determined—15 will be elected by the Lower House, using the single transferable vote, and 15 will be nominated by the Governor after consultation with the Prime Minister.

The composition of the Cabinet and the number of ministries have occasioned considerable criticism. The Prime Minister will have in his hands the control of Defence and External Affairs; the other ministries have undergone a reshuffling; for instance, the somewhat cumbrous Ministry of Labour, Industry and Commerce has had its functions divided among three of the new ones. Ministers of Finance and Justice replace two of the former official "Officers of State", but the late Financial Secretary, Sir Oliver Goonetilleke, a man of marked ability, has left Government service and accepted the portfolio of Home Affairs and Rural Development, with presumably a nominated seat in the Senate. Two Independent Tamils have been given the ministries of Commerce and Trade, and of Posts and Telecommunication, and several Parliamentary Secretaries have been or will presumably be drawn from the Independent members. The main criticisms levelled have been those of nepotism—e.g. the Prime Minister's son has been appointed Minister of Agriculture and Lands—and of failure to form a coalition with the Tamil Congress. As far as the latter is concerned, it would not appear to be Mr. Senanayake's fault, and as far as the former, many reasonable people hold that he has done his best with the material at his disposal.

Mr. Senanayake's party therefore has no clear majority, so the survival of his Government will depend on the degree of support he gets from his own party, from such Independent members as he succeeds in attracting to his side and from the six nominated members; also on the extent to which the various opposition groups work together. Some light has been thrown on this by the first proceedings of the House of Representatives, which met on October 14. The election of the Speaker seems to have been made a party matter: for the name of Mr. A. F. Molamure, the first Speaker of the old State Council, was proposed by members of the United National party, and that of his opponent, an Independent member of "leftist" tendencies—as they are locally known—by members of the Opposition. Mr. Molamure was elected by 58 votes to 41, two members abstaining. The voting was not so clear in the case of the Deputy Speaker, who was elected by a smaller majority. The Deputy Chairman of Committees, a well-known lawyer of the Burgher community, and one of the six nominated members, was a popular appointment, and was unopposed.

The Opposition groups, consisting of two communal and three Communist groups, all of which look like being ably led, together with some Independents who have tried without much success to form a "Left Centre" group of their own, have found it extremely difficult even to find an official Leader of the Opposition; they would find it far more difficult to form an alternative government should they succeed in defeating Mr. Senanayake on a major issue. They intend to propose a vote of no confidence as an amendment to the Governor's speech at the ceremonial opening of Parliament about the end of November, which should make still clearer who are and who are not the supporters of the Government. But the two major issues on which the Prime Minister will presumably have to go to the country if defeated are, first, the defence agreement with His Majesty's Government, of the terms of which there are so far no hints, and next, the measures which will have

to be taken in the endeavour to arrest the imminent deterioration in the economic and financial condition of the island.

With regard to the latter, it has to be remembered that Ceylon went through a period of somewhat artificial prosperity during the war, with vast spending by the armed Services, and a market only too anxious to take all the tea, rubber and copra that could be produced and transported. Since that time the decline of the rubber industry due to the resumption of Malayan competition and the maintenance of synthetic production in the U.S.A. have caused the Government to support it by subsidy, a procedure which cannot go on indefinitely; while a disease of the tea bush, "blister blight", may endanger the crop yield. The prosperity of Ceylon is, and will be for some time, largely dependent on the out-turn and the prices obtained for tea and rubber. The task of balancing the next budget will not be simple and may involve unpopular reductions in public expenditure and standards of comfort, for the balance of trade has lately taken an unfavourable turn.

The British Connexion

AS far as the agreement with the British Government is concerned, it is on its acceptance that the maintenance of the British connexion with Ceylon seems likely to depend. The opposition groups have declared themselves in favour of complete national independence outside the Commonwealth; at the first meeting of the House of Representatives the leader of the most intransigent of the Communist groups, in commenting on a friendly message sent by the Speaker of the House of Commons to the newly elected Speaker, and read out by him, controverted the hope expressed that the links between Ceylon and Britain would be strengthened by saying that he hoped the "bonds" hitherto prevailing between them would be, in the lifetime of the present House, "happily broken by us". Such a breach would in practice—though some of the Opposition groups may not realize it—mean in all probability a more or less compulsory inclusion in an Indian federation, certainly if India ceased at any time to be a Dominion. For the economic pressure alone that India is capable of exercising might well be enough to bring this about. These groups fail to realize that under full Dominion Status there is in fact complete independence with something more added—the advantages of membership of a world-wide Commonwealth, which commits a Dominion to nothing save the honourable obligation not to join in a war against Britain.

It is clear, then, that the acceptance of the agreement will depend on the extent to which Mr. Senanayake can persuade his own supporters to give him their unqualified backing. His personal popularity, ability and drive furnish the best, perhaps the only, hope of maintaining anything in the nature of a stable government; and he is firmly in favour of accepting Dominion Status. But his health is not all it might be. Then does not the aforementioned optimism of Mr. Creech-Jones require at least some qualification?

Ceylon,

October 15, 1947.

AMERICA'S FAITH IN EUROPE

CONGRESS AND THE PROGRESS OF INTERIM AID

THE American Congress convenes in special session on November 17 in troubled and uncertain mood. It is gravely disturbed by the breach between East and West, and fears participation in what is increasingly called the "cold war". Many of its members have seen for themselves the distressed conditions of Europe, and are certain that large-scale American aid is necessary. But they are not at all certain that the aid proposed will ensure European recovery. They are profoundly desirous of progress toward stability, peace and recovery. But nobody tells them with any confidence or clarity of the way to attain these universally agreed goals. President Truman does not speak with the voice of leadership. He only speaks when his silence has become almost painful. The Republican leaders are divided and inconsistent. Internal politics cast a pall, but it is not so pervasive as doubts and fears raised by the Russian question. Meantime, the usual post-war hysteria about "loyalty" is putting a distressing strain on civil liberties. And inflation runs apace, penalizing every consumer and threatening our economic well-being and our capacity to help Europe.

This picture is discouraging. But it is a picture of a mood only. It does not adequately reflect what Congress actually will be able to do. For once more Congress and the President are swept along by the force of circumstances. As in 1940-41, the United States will do what it has to do—what it must do. There probably will be no genuinely bold action. We are fighting a rearguard battle during an internal political interregnum. We are rather like the "sleeping giant", as the American economy was called before Pearl Harbour. Still unforeseen are the forces that can shake us into the kind of mobilization which then did so much to win the war and now might win the peace. But we will continue to do the inevitable, and perhaps that will be enough.

For the present, the inevitable consists of emergency interim aid, mainly for France and Italy, for which the Administration has asked \$642 million. Working on this request, which will probably be cut somewhat, will be the first task of the special session of Congress. But this emergency aid is closely tied to the whole Marshall Plan program. There is some support for tying the two together. For there will be a real debate over emergency aid, and it would be unfortunate to have two long, repetitious Congressional struggles in sequence.

The difficulty about combining consideration of stop-gap aid with the Marshall Plan—the European Recovery Program, as it is now officially named—is that the Administration's long-range recommendations have not been completed. The Government is studying the proposals made by the sixteen-nation committee for European economic cooperation at Paris. This study has been carried on by an interdepartmental team made up of representatives from nearly every Government agency even remotely concerned with

foreign aid. In addition, three special Presidential committees have worked on the program. These committees are (1) the National Resources and Foreign Aid Committee, headed by the Secretary of the Interior, Julius A. Krug; (2) the Economic Advisory Council, headed by a distinguished economist, Dr. Edwin G. Nourse; and (3) a nineteen-member citizens' committee headed by the Secretary of Commerce, W. Averill Harriman.

The Krug Committee has already completed its work. It reported that America's natural resources are sufficient to support a considerable foreign-aid program without endangering national security or the standard of living.

The Nourse Committee also reported that the American economy "can sustain the general impact of the foreign-aid program", provided we "deal promptly and effectively with problems raised by key commodities" such as wheat, steel, certain items of industrial and agricultural machinery, coal and fertilizer. The report contained a warning that serious inflation already exists in prices of food and steel. It urged President Truman to seek renewal of some war-time powers to deal with a threatened inflation of industrial prices.

The Harriman report (soon to come, but not available as this is written) will analyse the two foregoing studies in the light of the needs of the European Recovery Program. There are clear indications that the cost to the United States will be set at from \$16,000 million to \$18,000 million over four years. By the end of that period, it is expected western Europe will be restored to economic stability and its foreign monetary needs will be met through normal channels of international finance. The exact totals are now expected to be these:

1948	.	.	.	.	.	\$6-\$7,000,000,000
1949	.	.	.	.	.	\$5,000,000,000
1950	.	.	.	.	.	\$3,500,000,000
1951	.	.	.	.	.	\$1,500,000,000

Administration spokesmen insist that these figures are at rock-bottom, particularly in the first year. They declare that anything less than \$6,000 million in 1948 would merely be a continuance of spending of the last two years, opprobriously referred to as "operation rathole".

Restrictions and Conditions

AND yet it is almost certain that the Republicans will try to cut the figures down, and they have a Congressional majority. Senator Taft, the strongest figure in the Senate, says: "Four and one half billion should be the very maximum. I hope it may be less."

There is likely also to be a major Congressional struggle over terms and restrictions. Not only will some critics strive to whittle down the totals, but they will try to insert rigid conditions. There is talk of restriction aimed at curbing the spread of socialism in participating countries. "Why should the United States subsidize a form of economy which we believe to be ineffective and wrong?" it is asked. And yet wiser counsels are more likely to prevail. It is evident to the thoughtful leadership of Congress that any political or

semi-political conditions attached to the European Recovery Program would play fully into the propagandist hands of the Communists. The easiest way to prove the charges of American imperialism would be to attach political conditions to the aid program.

And yet Congress is deeply anxious to make the program work—to ensure that the heavy drain from American taxpayers will not be more money gone for mere emergency relief, serving nothing beyond hand-to-mouth needs, and leaving us in four years more or less where we started. Moreover, many Americans who have visited Europe this summer are hopeful that our aid may be utilized more fruitfully than in many instances they have observed. Scandals in the use—or non-use—of American supplies have been particularly noted in Greece and Italy. The experience of the British loan—however the responsibility for its ineffectiveness may be shared—is not reassuring.

Congress has still to learn whether or not the plans drafted at the Paris Conference constitute a firm basis for European recovery. The Administration will apparently make numerous changes in these recommendations, some of them merely to remove obvious pork-barrel demands. Thus, Greece's request for allocations which would provide a native steel industry will certainly be negated as unreasonable. It is in this way, multiplied, that the paring down of the total request to \$16-\$18,000 million can be justified.

Britain the Keystone of Security

FROM first to last, Washington policy-makers regard Britain as the key to success of the Marshall Plan. Britain would receive nearly half of the first year's payments—some \$2,500 million. It is felt that the European continent cannot recover without Britain, and vice versa. But even more important: Britain and the British Commonwealth remain central to American security in the world. For that reason, Washington seeks to do its part to maintain the independence and security of Britain, it wishes to strengthen Anglo-American cooperation, and to aid Britain to re-establish its firm position in the world economy.

Historically, Britain and the Commonwealth have been a strategic network invaluable to the United States in two world wars—both as defensive outposts and as bridgeheads for military operations. It is a cardinal point of American defense policy that this network cannot be allowed to fall into less friendly hands. Britain is also valuable in seeking an adjustment with the Soviet Union, and as a like-minded nation in preventing further Soviet expansion.

Britain is equally significant to the United States in the expansion of world trade. The primary objective of American economic policy is to expedite recovery through reduction of trade barriers and elimination of discriminations. With the United States and the United Kingdom doing 40 per cent of the world's trade, it is apparent that their cooperation is necessary to the achievement of any such objective.

Britain's present economic plight is attributed in Washington to the following factors—and it may be interesting to British readers to compare this analysis with their own views:

1. Liquidation of foreign investment.

2. War loss of shipping.
3. Deterioration and obsolescence of capital equipment and inefficiencies in its management.
4. Production levels inadequate compared to need.
5. Rise in prices of imports.
6. High unanticipated military costs abroad.
7. Failure to write peace treaties and increased international tension.

This cogent analysis of Britain's position represents the views of the Administration. It will not necessarily be reflected in Congress. There, more demagogic and political factors will be in evidence. The sharpest criticism will be levelled at British trade-union unwillingness to accept the consequences of the crisis. The colliery strikes made the most unfortunate impression. Until the Trade Union Congress finishes wrestling with its conscience and decides to make the fullest national sacrifices, American political and public opinion will not believe Britain has gone the whole way in self-help. The nationalization program is still an object of Congressional attack.

Nevertheless, the overall conclusion of American Congressmen returning from Europe is one of deepest admiration for Britain and for the relative stability and equality of sacrifice it manifests when compared with most continental nations. Even the demagogic Congressman can see that Britain and the British nations remain vital bulwarks of American security. And it is equally obvious that several of the world's sorest spots—India and Palestine, particularly—suffer from the withdrawal of Britain's imperial hand.

Inflation and the Remedy

THE most difficult problem facing Congress is not the implementation of the Marshall Plan. It is the challenge of American inflation. A further inflationary plunge of the American economy could have the gravest consequences on our capacity to aid Europe, as well as on our own well-being. And without safeguards, large-scale aid to Europe could be expected to bring about such an inflationary plunge. Therefore the Nourse Committee—in a recommendation President Truman is likely himself to present to Congress—urged that no time be lost in setting up or strengthening the following controls at the points where the combined impact of foreign and domestic demand exerts a direct influence on prices:

1. Allocation of scarce materials for domestic use.
2. Continued use and strengthening of export controls.
3. Penalties or premiums to discourage hoarding of scarce materials or their misuse "for purposes inconsistent with balanced national and international needs".
4. Restrictive measures against speculation in any commodities in short supply because it "does not serve an economically useful function".
5. Maintenance of tax revenues at existing high levels, reduction of government expenditures and encouragement of individual savings.
6. Enlargement and aggressive use of the power to control the expansion of credit.

How much of this program President Truman will get from Congress is problematical. Almost certainly not all of it. The Republican and the Democratic approaches to inflation are at polar opposites. The Republicans blame liberal economic policies—including support of labor-union drives for wage increases—as the basic cause of inflation. The Democrats blame Republican unwillingness to enact price-control legislation. The Republicans propose income-tax reduction to prevent a third round of wage increases. The Democrats believe taxation at the present level is necessary to combat inflation and to pay the costs of foreign relief.

Thus there is bound to be a keen political struggle in Congress over our domestic economic program. This struggle will reflect itself, almost unavoidably, in the consideration of European relief. The special session cannot be kept on a non-partisan level. And the need to consider internal economic problems brings into the session such bitterly controverted items as Government economy and budgetary practices, along with tax reduction. And the mere hint of returning war-time controls is profoundly unpopular in the country.

The next President

THE impending political struggle foreshadows next year's presidential election. In recent months, General Eisenhower's retirement as Chief of Staff and acceptance of the presidency of Columbia University has made him fair political game. Therefore, though he has never declared himself either a Democrat or a Republican, many of his friends have begun a well-organized drive for the Republican nomination. General Eisenhower, who after all still holds appointment from President Truman, has discreetly declared that he is seeking no office and has authorized no campaigns. He has stated that he will not campaign for the nomination. But he has not said he would not accept it, and this position is accepted as virtual notice that he is willing to be "drafted".

General Eisenhower's assumed availability has changed the Republican picture. His enormous prestige at once made him a very impressive candidate. Moreover, as President Truman continued to show growing strength in the Gallup poll—latest indications in that hitherto accurate index were that if the election were held today, Mr. Truman would be re-elected—the Republican leaders realized they must seek a very strong candidate for themselves. No longer do they believe they can win with almost anybody. If this situation continues, it will be favorable to General Eisenhower's candidature. As a result, a large number of political observers think his nomination is very likely.

Governor Dewey and Senator Taft, it is held, will serve to checkmate one another. Both of them are somewhat shopworn candidates: Governor Dewey could not win in 1944, after having defeated Senator Taft for the nomination. Neither has a completely appealing political personality. Senator Taft is too conservative and isolationist to appeal to the largest majority. Governor Dewey is too calculating and synthetic, at least in appearance, though nobody questions his skill as Governor of New York.

But General Eisenhower comes into the picture as a new and imposing personality. His broadly liberal views—as they are inferred to be from his rare expressions of opinion—and his great gifts as a speaker and campaigner are very appealing. Yet he is an untried and non-political figure, and the professional Republican politicians will not take him unless fear of defeat forces them into it.

A distinct possibility, if there is a Taft-Dewey deadlock and General Eisenhower's boom fizzles, would be Senator Vandenberg. He remains in the perfect "dark horse" position—saying nothing, exerting himself little in presidential politics, remaining relaxed—and yet quite able to step into the running at the last moment. As a seasoned politician, Senator Vandenberg would greatly appeal to his party leaders. And there is no denying that his political experience would be of greatest value in dealing with Congress.

One element in General Eisenhower's background makes a deep appeal to Americans, and that is the success he always had in dealing with the Russians. Of course, working with Marshal Zhukov in the hour of allied trial and triumph, and carrying on the intense and poisoned negotiations of the post-war years are two very different things. A paragon of patience and charm would have found the last year trying. Nevertheless, General Eisenhower was regarded as a friend by the Russians, and many Americans would like to have such a man in the White House.

Must the Cold War go on?

THIS feeling brings us to a consideration of American policy in the great world cleavage: American policy toward Russia. America overwhelmingly wants peace. America has no imperialist aims. We may frequently be clumsy and self-centered in our approach to the rest of the world. Sometimes we put ourselves in the position of imperialism. But the American people are not imperialist at heart, as their frequent lapses toward isolationism attest. Americans want a stable world, and they are not too sure how to seek it.

American policy toward Russia is one of containment. We refuse to accept the apparent conviction of Soviet leadership that American capitalism and Russian communism cannot live side by side in the world. We believe these forms can co-exist, but we refuse to grant Russia free right of expansion. We are firmly determined to carry through effective measures of support for free peoples, but using new care to examine where and how such support can be made effective.

Washington policy-makers were encouraged, not angered, by the Vishinsky attacks. They felt the attacks proved that the Politburo was worried over the possible effectiveness of the Marshall Plan. Washington does not want Russia to leave the United Nations, particularly because it wants to keep all of Europe within the United Nations. The basic purpose of the Marshall Plan is to integrate western Europe, providing not only a barrier against communism but a powerful attraction for the border states. The strength of Europe—with resources in most respects outnumbering the resources of the Soviet Union—is now the key basis of U.S. policy. Not only are the economic

and human resources of Europe significant in comparison with Russia, but so are the mental and cultural sources of strength and resistance. There is little or no "hate Russia" talk in high Washington circles. Fortunately, the emphasis has shifted to the constructive line: to strengthen a Europe which already at base is extremely strong.

This strategy is aimed directly at the two assumptions of Soviet policy: inevitable collapse of capitalist countries, and inevitable conflict. If the first assumption can be disproved—through the Marshall Plan as the first step—then doubt can be cast on the second. Some hopeful diplomats in Washington even think they see signs of wavering in the Kremlin—doubt whether the hard policy is really succeeding. And one psychoanalyst, listening to Mr. Vishinsky's speeches, said: "There speaks a man who is frightened."

In any event, the immediate emphasis of American policy is on emergency economic aid to get France and Italy through the winter. Scarcely second in the time table comes the Marshall Plan. But the long-range emphasis goes deeper. It is based on the need for Europe's cultural and spiritual survival and independence, on supporting her with American idealism and intelligence as well as American money and machines. We are calling the old world into existence to redress the balance of the new. We expect Europe to emerge from its time of trial and adversity with revived spiritual and ultimately material strength. We can think of no better answer to the war of ideas which comes forth from Moscow.

INDIA

THE DAWN OF INDEPENDENCE

THE last article in this series described the exhilarating but somewhat alarming pace of the progress towards independence from June 3 on. The goal was reached on August 15 and enthusiasm was general. Good-humoured crowds went wild in Delhi, where the formal arrangements had to be abandoned. The crowds' welcome for Lord and Lady Mountbatten seemed both recognition of the remarkable part played by the last Viceroy and first Governor General of the Indian Dominion in securing the prize which has so long eluded India's eager but awkward grasp, and a sign of the friendliness which could be expected to develop in relations between Britain and India, henceforward equals. In Karachi, where celebrations began earlier with the arrival first of Mr. Jinnah and then of Lord and Lady Mountbatten, public demonstrations on the Appointed Day seem to have been more restrained.

The scenes in Calcutta were the most remarkable of all. Mr. Gandhi's presence, the acquiescence of Muslims in the loss of the city (though the boundary commission awards were not announced till August 18) and the wine of independence combined to produce a miraculous transformation. Calcutta went joyfully mad. Government House suffered from the effects of mass invasion. One young sweeper woman, describing the grand "show" and her own joy at sliding down the banisters, added, "And it was all free!" It was very much free—and for all. Damage was done. But that was a small thing compared with the mending that went on simultaneously. The streets were thronged with people of all ages and all communities and vehicles of every kind—public transport also was free—carrying flags and favours of the national tricolour. Happy crowds shouted deafeningly, and seemingly without interruption for two days and more, "*Jai Hind*" and, more significant, "*Hindu-Muslim ek ho!*" (Unite!). On the morning of August 15 communal killing ceased in Calcutta, though minor incidents were reported from Barrackpore and in one area on the boundary between the two Bengals. It started again in the city a fortnight later. But Mr. Gandhi, who was himself threatened by rowdies, began a fast, which he was persuaded to break after seventy-three hours when he was told that all disturbance had ended. So far there has been no revival in Calcutta, or indeed in the two Bengals, except that in Dacca at the end of September Muslims interfered with a Hindu procession. As a result of this and the general nervousness caused by reports from less fortunate provinces and, perhaps also, of scarcity of food, some Hindus have left East Bengal for West.

The Tragedy of the Punjab

DURING the halcyon days of August 15 and 16 the country as a whole heard ominously little news from the Punjab. Even the most optimistic dared not hope for a miracle there, too, but few were prepared for a calamity so gigantic that its proportions cannot yet be clearly determined, and perhaps

never will be, clouded as they are by propagandist reports, partisan assumptions and deep-seated natural sympathies. Even the sequence of events is hard to follow. It was, however, plain early in August that authority was breaking down, and in many parts of the Punjab, especially the East, had already broken down. Some in Bengal had earlier thought that the only hope of peaceful transition lay in direct administration of the province by the Governor under Section 93 of the Government of India Act. Events showed otherwise. Popular government in Bengal, even in the notionally partitioned stage, acted as a buffer against anarchy; and though in both halves of the province, but especially the East assigned to Pakistan, administrative arrangements on August 15 were very far from complete, nevertheless the rudiments of government were established. In the Punjab under Section 93 the case was wholly different. In neither half was there a Ministry with even a few weeks' experience, and when in the East the administration, including the police, was purged of its Muslim elements there was virtually no authority left. There was, however, the Boundary Force, established on August 4 and abolished by joint decision of both Dominions on August 29. Accounts of its performance vary; but there can be little doubt that it was inadequate for a task whose nature and magnitude nobody had clearly foreseen, and which it was never meant to undertake. Its job was to preserve peace on the boundary, not to quell a mass rising or to arrange for a wholly unprecedented exchange of population.

There is a tendency to blame the Plan of June 3 for what happened. Except, however, that this supplied a date against which to organize, there is little to substantiate the view. Had organization been as complete on the Government side as, some say, it was among those seeking disruption, even the date would not have mattered. The existence of a conspiracy can only be guessed at and is unlikely ever to be proved. Pandit Nehru, however, on October 19 spoke of organized groups which made it their profession to murder people. The destruction of so much life, he said, was "not accidental but pre-planned. It was an attempt by the reactionary elements to paralyse the whole administrative machinery and usurp political power." The phrase "Sikh Rising" used in the British Press has caused much annoyance in India, where the official theory is of a chain of retaliation in which the Punjab events are only the latest—and it is hoped the last—link. That explanation, however, seems inadequate. Though it has been denied by the Sikhs that they ever sought to establish a State of their own, it may be surmised that events earlier in the year had deeply wounded their pride, their *izzat*, and knowledge that no modification of the June 3 Plan and no conceivable alternative to it could ever satisfy their ambitions deepened frustration. If, however, the Sikhs began the trouble in its latest phase, reprisal was swift. India has concentrated its attention on atrocities in West Punjab, Pakistan on East, but nobody really knows which has suffered most. On September 13 Pandit Nehru said that the official figure of those killed in the Punjab up to that time was 5,000, but admitted that the real figure might be twice or three times that. Many think that the multiplier should be 100. It is impossible to tell. When villages and towns have been attacked and become deserted there

is no accurate means of finding out how many of their inhabitants survive as refugees. It is equally impossible to learn from the few survivors how many were the original travellers in a refugee train which has been made a target.

The Boundary Commission awards published, belatedly, on August 18 have been much criticized on behalf of both Bengal and the Punjab, from opposite points of view. But though the Government of India has hinted at unilateral revision, it seems doubtful whether there will be any major change. The Punjab was already gravely disturbed when the award was made known. Doubtless fuel was then added to the flames, but no adjustment could have extinguished them. The Dominion Governments were not slow to act. On August 17 Pandit Nehru and Mr. Liaquat Ali Khan went to the Punjab together. Conferences were called, tours undertaken, appeals and threats made. The hope on both sides was seemingly that, bad as the disturbances were, they could be localized and would soon cease. It was not for another ten days that the true nature of what was taking place became fully clear. By that time the streams of refugees had swollen so greatly that both Governments were reluctantly compelled to recognize that a mass transfer of population was in progress and they could no longer stop but only guide it. From then on efforts were directed, through the two armies, to protecting the routes along which the thousands moved, in columns sometimes straggling over fifty miles or in pitifully few trains diverted from normal traffic, to establishing collecting- and halting-points and to supplying food and combating disease. Many were attacked and killed *en route*; others died; cholera broke out; floods may have drowned more than a thousand. By the middle of October it was estimated that four million had left their homes, rather more than half of them Muslims from the East, the rest non-Muslims from the West Punjab. It is hoped, though not very confidently, that the operation will be complete by early December, by which time perhaps another 4 million or more will have crossed the border in one direction or the other. Most of these are merely waiting their turn, but if they do not get started soon they may never be able to do so. They may perish of cold.

Cities of Refuge

HUNDREDS of thousands of refugees have spilled over into adjoining provinces and States—from the latter many have emerged; the killing has not been confined to what used to be British India. By the beginning of October there were estimated to be 300,000 in the United Provinces, many also in the Central Provinces and some in Bihar and much farther afield. Provinces such as Bombay and Madras-Assam offered to accommodate limited numbers of them. But the chief impact was in Delhi, where communal tension redeveloped towards the end of August. On September 4 the storm broke. Nine days later Pandit Nehru estimated that 1,000 had been killed in the capital, but admitted that this figure, too, might need to be trebled. What took place could not be called communal rioting; it was massacre. One especially disgraceful feature was concentration on the railway station and the Willingdon airport; Muslims seeking to escape were

butchered. Food-supplies, inadequate for the population increased by perhaps 250,000 refugees, almost gave out. Control was established after a few anxious days. Most of the Muslim population was concentrated in refugee camps. Many have left; more seem likely to leave. The character of Delhi has changed out of recognition.

Elsewhere in India there has so far been no serious disturbance except in the United Provinces, where there has been trouble in the Western districts invaded by refugees. No complete picture of events there is available. Conditions in Saharanpur, Dehra Dun and Mussoorie seem to have been very bad at one time, and tension continues and is encouraged by communal organizations. The Ministry led by Pandit Pant has held firm against extremist Hindu demands, but the refugees must soon be either returned to the Punjab or settled in the United Provinces. The influx is officially supposed to have stopped; no more are to be admitted. But it is doubtful whether the ban can be enforced. New-comers added to present discontent will make a very explosive mixture. However, it is notable that the great majority of the provinces' 9 million Muslims have seemingly made up their minds to stay; by the end of September only 15,000 were said to have left.

In Pakistan outside the Punjab there has been more panic than murder. There was some sort of disturbance in Quetta on August 23; few details have been received but it seems to have been not, as was at first suggested, spontaneous, but planned. This and train outrages and minor disturbances in Karachi itself started a movement of the minorities out of both Baluchistan and Sind. By the middle of October perhaps 150,000 Hindus and Sikhs had left. In the N.W.F. Province the situation is obscure. The Congress Ministry showed no readiness to resign and was dismissed by the Governor on August 22, seemingly on orders from the Governor General, Mr. Jinnah. Pathans came in from across the border but are said to have been persuaded to leave quietly. The Fakir of Ipi, long a focus of trouble in Waziristan, has been pardoned; his political affinities, however, remain obscure. There have been casualties among the minorities, and perhaps also among those Muslims who opposed the present Ministry. The Government of India has been urged to remove the 80,000 or so Hindus and Sikhs from the province, and this may be done. Some have already left. News from the Frontier is so little that the province might never have formed part of India. Even Pakistan seems to be paying scant attention to it, doubtless owing to preoccupation with the Punjab.

The Challenge to the Governments

THIS, then, is a picture, ragged, incomplete and superficial, of the most obvious of the troubles which have faced the young Governments of India and Pakistan. Harassed, shaken and handicapped, they have survived them. Had Pandit Nehru's Government during the period of mob rule in Delhi suffered the fate of U Aung San's, the Punjab calamity would have been dwarfed by what followed. Neither Government, of India or Pakistan, is wholly popular with the majority behind it. There has been much clamour in India for the expulsion of all Muslims as members of a so-called fifth

column, and for the creation of a Hindu State. This demand has been denounced by both Mr. Gandhi and Pandit Nehru, who claims to have the support of the whole Cabinet in this. Doubt may, however, be felt of the whole-hearted adherence of Sardar Patel, who once suggested something very like wholesale evacuation, and Dr. S. P. Mookerjee, the Hindu Mahasabha leader, since the Mahasabha and its ally the Fascist Rasthriya Swayam Sewak Sangh are very closely associated with the demand. Muslims from the United Provinces, Bihar, Bombay and elsewhere have protested their loyalty, and some denounced the two-nations theory on which the Pakistan demand was founded. But how are they to prove themselves loyal? It is suggested that they should dissolve their own political organizations and join the Congress. That seems a likely step. The Congress as a whole stands behind Mr. Gandhi and Pandit Nehru. It is, however, very difficult to resist the influence of news from the Punjab, especially when it concerns relatives and friends. If condemnation by Hindu and Sikh leaders in India and Muslim in Pakistan of atrocities committed by their own communities sometimes seems half-hearted, this must be remembered. It is something that they are condemned.

Though there has been loose talk of war by some who should know better and long-range mutual contradiction and quibbling by members of both Cabinets, it is just possible that the shared disaster will bring the two Dominions closer together. There have been frequent meetings between the Prime Ministers and other members of the two Governments and joint action has been decided on and taken. The Joint Defence Council is an important vehicle of collaboration, but it seems likely that, without the impelling need to work together for the rescue of the Punjab, meetings between Ministers would have been much less frequent. This is small consolation for a disaster whose effects will long continue in hatred, bitterness and distrust. If, however, the two Governments continue to collaborate in relief and rehabilitation, a hopeful future may be built among the ruins. It has been sagaciously pointed out that, had the status of India and Pakistan not been that of Dominions and had there been no machinery for joint discussion, the consequences might have been far worse even than now. War between two foreign States could scarcely have been avoided in circumstances similar to those provided by the Punjab and Delhi killings. There are some, therefore, who, going further, draw a lesson from the ill that has and the worse that might have befallen, and are already talking of reunion.

The Cost of Division

INDIA's economy has been badly damaged. Though several Indian provinces have published development schemes, it is hard to see how the Centre can give the help they require. The Centre's own plans are in suspense. Policies important to trade and industry have not yet been clearly enunciated. Damage done to Pakistan's economy is likely to be far greater. Not only is the loss suffered heavy and the likely cost of rehabilitation high, but the outflow of Hindus and Sikhs has deprived the Dominion of elements vital to finance and business; even the scavengers have gone or are going.

East Bengal, with its wealth in jute, remains relatively unscathed, except for the severe floods in Chittagong, which have caused much local distress. But East Bengal needs to be fed. Moreover, food must be sold to India in exchange for many things Pakistan lacks. The Punjab calamity has deprived Pakistan of most of its surplus. It seems clear that the economic argument for reunion is strong.

There is also the argument for joint defence. Divided, the armed forces have lost very much more than half their former efficiency. Though wholesale charges of partiality are false, there is no doubt that communal and personal sympathies have warped the spirit of many officers and men. The rot must be stopped and, as Maj.-Gen. Cariappa, India's Chief of Staff, said in a recent broadcast, the Army must be made efficient "in time". International conditions emphasize the importance of this. There are other arguments for union. Though some of the new provincial administrations have shown admirable vigour and efficiency, notably that of West Bengal, in other provinces administration is at a low ebb. The Governor of Assam, Sir Akbar Hydari, recently spoke of its "very weak state". In October both India and Pakistan lacked their full complement of officials and probably will continue to do so for some time to come. A committee has been appointed to examine the question, including possibilities of recruitment from the professions and commerce. Again, communications are very inefficient. Coal is held up for lack of transport; letters sometimes take weeks to reach their addresses. It is suggested that the two Dominions should unite for defence, the conduct of foreign affairs and the management of communications. Still more ambitious, it has been suggested that the Cabinet Mission plan be revived.

The Hesitant Princes

NONE of this seems practical. Though in India the demand for a Hindu State may be a passing phase, and though among Muslims, in both India and Pakistan itself, there is much disillusion, Pakistan is unlikely to surrender a shred of its authority, even though bankruptcy threatens. Moreover, if collaboration is close in some respects, in others the gulf widens. Compared with the Punjab, the affair of Junagadh seems of small dimensions, but it is critical. This little maritime State in Kathiawar (bigger, however, than Nawanagar) has a Muslim ruler; his subjects are mostly Hindus. Having seemingly pledged himself to accede to India, the ruler changed his mind and joined Pakistan. India has tried argument and threatens force. Though principles of geographical contiguity and popular sympathies are involved, probably India would not have gone so far had the much greater States of Hyderabad and Kashmir made up their minds about their future. Pressure on Hyderabad to accede to the Indian Union has been great and persistent. It seems the natural course, but internal disturbances and interference with the free movement of Muslims into the State—these may be refugees, though the Government of India says they are not—are unlikely to persuade the Nizam that his choice is being left entirely free.

If Hyderabad and Junagadh might be expected to join India because of

geography and their predominantly Hindu populations, Kashmir should, on similar reasoning, join Pakistan. The Maharaja, however, long would not make up his mind. To join India would have suited him as a Hindu but probably meant forfeiture of privileges. To have joined Pakistan might have ensured his privileges, but not necessarily for long, since his Muslim subjects lean towards democracy. He was wooed by both sides—though he has lately alleged economic pressure from Pakistan—till, having released the democratic Muslim leader Sheikh Abdullah, a Congressman by inclination, he found his State invaded on October 22 by armed tribesmen, seemingly with the connivance, if not support, of the neighbouring Pakistan authorities. Four days later he decided to accede to India, and set up an interim Government under Sheikh Abdullah. Even had they not wished it, the Government of India could scarcely have refused the accession since it was imperative to protect the residents of Srinagar from attack and to seek to prevent prolonged disturbances in a State so strategically situated. Wisely, however, acceptance was conditioned by a stipulation that the wishes of the people should be ascertained when calm was restored. It should be noticed that Lahore and Peshawar have been telling a different story—of outrages against Muslims in Jammu, where their majority is slight, of Muslims fleeing the State, and of outrages in Pakistan territory by mobs crossing from Jammu.

Otherwise the most notable recent development in Princely India is the success of the Mysore State Congress, after prolonged *satyagraha* marred by violence here and there, in obtaining representative government in that long well-governed State.

Constitutional and Social Legislation

IF in most practical affairs there has lately been little progress in either Dominion, owing to preoccupation with the Punjab, India has taken strides forward in the constitutional field. On the eve of the Appointed Day, nine important Orders of the Governor General were published in a *Gazette of India Extraordinary*. Copies have been difficult to get hold of and it is possible that illegalities have been committed in consequence. The general effect of the Orders, some of which apply to both India and Pakistan, others to Pakistan only, is to modify the Government of India Act to suit the new circumstances and to ensure the continuance of existing legislation. Further important steps are the completion of the draft Constitution by the Indian Constituent Assembly, preparations by that body for exercising legislative functions in November and the publication of the Advisory Committee's reports on minorities and tribal areas. Both these are enlightened surveys which do credit to Sardar Patel and his colleagues. As expected, the minorities lose their special position in the Services, weightage in the legislatures and separate electorates; reservation of seats is substituted. Recommendations are, however, made to protect minority interests in a general way, and Anglo-Indians are given special privileges in the services for ten years. Pakistan has made little headway with any of these constitutional matters.

Unhappily, while so much progress has been made in fashioning a united India, there have been ominous signs of the revival of a force which is

potentially scarcely less damaging than communalism. Provincialism, both in the political form of Bengal for Bengalis, Assam for Assamese, Orissa for Oriyas, and in the yet more embarrassing extreme linguistic form, has lately been conspicuous. Bengalis have suffered from the attentions of local patriots in both Bihar and Assam. Administration, legislation and food procurement have been complicated in Madras by the political ambitions of Andhras. In Bengal the use of Bengali, in Assam that of Assamese and in the United Provinces that of Hindi written in the Devanagri script (this to the sorrow of Mr. Gandhi, who would have Muslims left free to use the Urdu) is being enjoined for administrative purposes. Increased use of the provincial languages in schools is inevitable and right, but the division of India into linguistic compartments can only be damaging.

In provinces which have not been seriously disturbed, social reforms have proceeded. The puritans now frown on smoking as well as on drinking and horse-racing, though no legislation has been passed to stop it. In West Bengal, under the energetic leadership of Dr. P. C. Ghosh and no doubt with the enthusiastic approval of the Governor Mr. Rajagopalachari, steps have been taken to check corruption among public servants—an evil as widespread as and scarcely less formidable than the water hyacinth which chokes the rivers—and to clean up public life generally. When the food scarcity seemed to threaten the rationing system with collapse in both Madras and West Bengal, cuts in the rations and a notable improvement in procurement prevented it. If these two provinces get through November without disaster, they will have their Governments to thank.

The Land and its Produce

PROPOSALS for abolition of large estates continue to excite interest in Bihar, the United Provinces and Madras. Bihar now seems determined to go ahead with a probably salutary but certainly costly scheme which earlier had been frowned upon by the Congress High Command. In Madras, the Bill for the abolition of *zamindaris* has led to renewed dispute between the Ministry and the Andhra faction led by ex-Premier Mr. Prakasam. The point at issue is the inclusion of *inam* tenures, which involves interference with temple endowments as well as with the resources of politicians. The extraordinary tale is told that *inams* were included in the Bill by the Ministry of Revenue and the Prime Minister failed to notice it. The Cabinet later decided to leave them out but was defeated on a vote at a party meeting by Mr. Prakasam's supporters. Suggestions for a compromise made by the Congress High Command seem likely to be accepted. In the United Provinces, progress is hampered by the more pressing needs of law and order and the need to avoid creating fresh discontent. In Bengal, the Suhrawardy Ministry's proposed legislation for taking over permanently settled estates has not yet seemingly been considered by the Governments of the divided province, though the Ghosh Ministry is contemplating an ordinance controlling the use of land and inflation of land values.

Means to increase the production of food grains have lately been under consideration by a new committee. This is said to have made an interim

report in which subsidies for producers are recommended, besides a reduction in the number of persons rationed. It is regrettable that, except for occasional flurries, from which alarming statements of imminent disaster emerge, the Centre has shown little evident interest in food, though the Punjab calamity has greatly diminished output, and refugees mean more mouths to feed in deficit areas. Cloth, too, which is the other great scarcity, is being produced in less and less adequate quantities. Scheme after scheme is devised for increasing production, especially of the coarse cloth most in demand, but no improvement is seen. Besides the communal disorders, labour troubles in the textile and many other industries have diminished production all round, but this seems an incomplete explanation. Greater certainty about Government policies with regard to taxation, nationalization and imports would have a stimulating effect, though there seems to be little doubt that much war-time productive capacity has vanished with the demand which created it. The fall in cloth production, however, is not attributable to this cause. Slow reconversion from war-time production and the difficulty of getting new machinery may be partly responsible. It is difficult to believe, however, that if the mills were ready to work for smaller profits, they would find it impossible to increase production so as at least to satisfy Indian demand if not to increase exports to the extent required to capture former Japanese markets abroad.

External Relations

THERE is presumably no need here to do more than briefly mention India's and Pakistan's interest in international affairs, sometimes conflicting but usually coinciding. There was not much enthusiasm in India over Pakistan's proposed appeal to UNO and her request for Commonwealth investigation of the Punjab calamity. Since Pakistan has been elected a member of UNO, however, her delegates and India's have generally worked in harmony. A report from London that Pakistan was to obtain coal from South Africa has been denied. So far, both India and Pakistan show no sign of relenting over the embargo on South African trade, while they are fiercely criticizing South African policies in the United Nations General Assembly. Though, however, Indian representatives abroad may win diplomatic successes, it is felt by Pandit Nehru and others that the influence of the country has been greatly diminished by events in the Punjab and would be weakened further if the communalists had their extreme way. Both morally and practically, power has gone out of us. There is, however, hope that, when sanity is fully restored, the leadership of Asia to which India aspires may yet be hers—to share with Pakistan if she so wishes. The Asian Regional Conference of the ILO, like the earlier Joint Relations Conference, shows that such ambitions are not groundless.

India,

November 1947.

UNITED KINGDOM

THE DOLLAR GAP

THE feature of United Kingdom affairs during the past quarter has been the maturing of the economic crisis—and the ripening fruits are proving extremely bitter. The Government have presented them to the public by instalments, partly because it has taken them time to prepare a new and—to them—unexpected menu, and partly, perhaps, to temper the wind to shorn lambs. But we now know pretty well the full story, even though the general public may not yet fully appreciate what it means. A “dollar gap” is just a phrase to most of us until we actually experience the process of trying to close it.

There are two sides to the process. The first is restrictions on purchases which have to be paid for in dollars, the second is expansion of sales which are paid for in dollars. This has become a verbal commonplace, but its realization requires little short of a material miracle. For unhappily those things which have to be paid for in dollars are precisely those things which it is most difficult to restrict without a really dangerous lowering of the standard of living—food, raw materials, certain types of machinery and certain commodities, such as tobacco, which, though they rank as material luxuries, are in some sense psychological necessities. Again, what can be sold for dollars is necessarily limited. The dollar area includes, of course, the United States with its unrivalled productive capacity. It includes also large areas which are potentially great markets, but for many reasons naturally markets more for American than for British goods. Thus, though the American market is highly protected, it may be argued that it is not only high American tariffs which impede the purchase of British goods. We could sell *some* more of *some* kinds of goods if American tariffs were lowered, but not *much* more of *many* kinds of goods. The intractability of the problem, so ably exposed by Sir Stafford Cripps in his speech to the House of Commons on October 23, consists in the possibility of inelasticity in dollar markets and elasticity of dollar needs.

The beginning of restrictions of dollar imports in last April's budget (chiefly a heavy increase in the tobacco duty and the power, later exercised, to impose a heavy duty on films) was a mere flea-bite. The first serious cuts were those announced on August 6 and August 27. They were calculated to affect savings at the rate of £200 million worth of dollars a year; but not, of course, this year. Sir Stafford Cripps, in his speech already referred to, proposed further savings of £100 million, involving a calculated risk of approaching the border-line of national under-nourishment. The programme of cuts is thus very severe, and if carried farther might seriously impair our power to produce, owing both to shortages of raw material and to failing human energy.

There is, of course, another form of saving dollars, namely, the greater production at home of goods formerly paid for in dollars. That explains the plans announced on August 21 for an increase in British agricultural production of £100 million a year. Two factors make this figure rather academic, though the virtue of the principle of more home-grown food cannot be contested. The first is the weather. The drought this year, following on last winter's severity, brought down the yield of the British harvest to well under the average. It has even made necessary the rationing of potatoes—one of the few foodstuffs in which we can be self-supporting and normally the last line of defence of famine-stricken countries. The second awkward factor is labour. Somehow or other the 130,000 German prisoners working on the land will have to be replaced, and it is more than doubtful whether the direction of labour or the use of foreign volunteer labour will replace them.

The Empire's Part

THE proposed savings by means of Colonial development are in much the same category. On the long term, development of production within the Empire is essential. The "dollar crisis" is not some sudden phenomenon. It is an acute phase of an economic disequilibrium between the Americans and the rest of the world which has existed for at least a generation and was masked, but not cured, by vast American overseas lending. Directly that "lending"—the word should be printed in inverted commas because it was really giving, or, if you like, buying employment in America—slowed or stopped there was a crisis, as, for example, in 1929; and the crisis was on both sides of the Atlantic. It follows that if the germs of recurrent crises are to be killed, the world outside the Americas cannot allow itself to depend for ever upon a vast flow of stuff from America uncompensated by any counter-flow to America. Space prevents discussion of the ensuing possibility of crises due not to economic disequilibrium or to scarcity but to world glut; and in any case we are tragically far from glut. The immediate point is that development of Colonial, Empire and indeed European production is common sense. But it must take time and can produce little immediate effect beyond some lessening of the world demand for dollars. What the Empire can do at once for itself has readily and swiftly been done. The Dominions have drastically restricted their dollar purchases. South Africa has placed at our disposal a large amount of gold. An ill wind has once again blown the Empire the incidental good of exposing the existence of mutual affection and interests. It must, however, be added that grave disquiet has been caused by the conclusions of the protracted International Trade Conference at Geneva. Broadly speaking, they comprise reductions in Imperial Preferences in exchange for a Covering of American tariffs; but it is not so much the content as the implications of the agreement which may prove dangerous. It contains the germ of the abandonment of the conception of the Empire as an economic family in obedience to American devotion to the theory of multilateral trade.

Economizing Security

IT has been too widely and too generally assumed that cutting down the Defence Services can effect enormous economies. These Services have often—and sometimes nearly fatally—been the happy hunting-ground of economizers. Very serious inroads are to be made on the strength of these forces, and the most striking example is the reduction of the Home Fleet in commission to a Peruvian level. It has been explained that these tremendous reductions in fighting strength are temporary. They are called “temporary immobility”. They are said to reflect the ephemeral results of a reorganization and not any permanent disbandment. But from the point of view of fresh dollar savings, the effect is not very great. The real saving would be if we could get rid of the liability to feed the Germans with food that has mostly to be bought in dollars; but the Americans have not yet agreed to that. There is, however, an incidental and valuable advantage in the speedier demobilization of which the cuts in the Services mainly consist. It will increase the labour available for productive work by an estimated 150,000 men.

The best category of savings is that of indirect savings. If the home programme of capital expenditure can be reduced, the demand for imports of such things as steel and timber will be reduced. The Government proposes to cut the programme of public capital expenditure by £200 million, and restrictions on private capital expenditure will reduce the programme much more. The cut is not very large—probably not more than 20 per cent—but it is only fair to say that an unduly large cut would reduce our productive and competitive capacity.

From what has already been said it will be realized that the two parts of the programme to close the dollar gap may be not complementary but conflicting. For production cannot be increased unless productive capacity be maintained, and the maintenance of productive capacity depends on the maintenance of imports of food and raw materials: we must somehow pass between the Scylla of profligacy and the Charybdis of debility. Assuming that the cuts announced are not too severe to affect efficiency, what can we do to increase production? Agriculture and its hopes and difficulties have already been mentioned. Next comes coal—where the results achieved by concessions, by appeals and by every sort of persuasion have been highly disappointing.

The Temper of Industry

THIS is a controversial topic, and the writer can only say what he thinks as a result of long and intimate acquaintance with the mining industry. The first reason for the poor coal output is a change in the personnel of the mines. It is no longer true that mining is a traditional profession passed on from father to son. Secondly, as Lord Hyndley, the Chairman of the Coal Board, has explained, this new organization has not yet had time to get going. It is probably over-centralized. Thirdly, the miners expected a quite different result from nationalization, and they have not—at least widely enough—consciousness of crisis. It is not easy for outsiders to understand an episode

like that of the Grimethorpe strike. The facts are that when the five-day week was introduced, it was agreed that the "stint" or allotted task at the coal face should be reviewed. (The "stint" system is not wholly virtuous. There is a natural tendency to complete the allotted task as quickly as possible, no matter what the statutory hours of work. Provided the fulfilment of the stint brings in a satisfactory wage, the quicker the miner completes it the more time he has off. This may lead to dangerously rushed work.) At Grimethorpe a Committee representing the management, the Coal Board and the men (but not comprising representatives of the 150 men directly concerned) agreed to a 10 per cent increase in the stint. The miners affected said the increase was too much and struck. The strike lasted some three weeks, during which most of the South Yorkshire miners struck in sympathy and half a million tons of coal were lost.

This strike is no isolated incident, but only the worst of a series of "unofficial" strikes, declared in defiance of the trade union and in despite of the conciliation machinery. It is not so much the total effect of unofficial strikes in this and other industries that is serious as the spirit and the degree of lack of understanding of the state of the nation which they reflect. That the British will have to go cold this winter in order to provide fuel for industry is only one of the results. Another is the lack of coal to export—and coal is the most saleable of all our exports, not, of course, to the United States, but to some countries such as Sweden whose currency is convertible into dollars, besides most "soft currency" countries. As Sir Stafford Cripps said, "in many bilateral deals, coal is as valuable as gold or dollars". He hopes for an export of ten million tons next year. It does not seem likely. But it is fair to add that, though nearly four months were needed to get agreement to work more hours a week, the necessary arrangements were made early in November and roughly half a million tons a week more are now being produced.

The Emergency Budget

MEANWHILE, there are obvious monetary and financial repercussions from the crisis for which policy ought to provide. Greater austerity means that more money is available to chase fewer goods, and therefore inflationary pressure increases. Mr. Dalton therefore introduced a supplementary budget on November 12 with the professed purpose of relieving this pressure. By common consent his budget has done nothing of the sort. It increases taxation by £208 million in a full year and by £33 million this year. That means that Mr. Dalton's proposals can have little short-term effect and a quite inadequate long-term effect. For they are not complemented by any serious or definite proposals to reduce expenditure. The difficulties must be admitted. Mr. Dalton's problem was to mop up new purchasing power without discouraging production; since increased production is the only true way to surmount the crisis. Supposing for example he had lowered the food subsidies, and thus increased the cost of living. Would he not simultaneously have had to decrease the taxation falling on the lower ranges of income and thus virtually cancelled out any anti-inflationary effect of cutting the subsidies?

This dilemma exists throughout practically the whole range of taxation

and much more thought is required to get round it than the Government seem to have been able to devote to the question. There is no recognizable purpose in the budget proposals at all. Mr. Dalton seems to have scraped round for proposals that would not, as he himself claimed, seriously affect anybody. That may be good politics but it is weak finance. It means either that the crisis is not nearly so serious as the Government themselves say it is, or that the Government have not the courage to act according to their own estimate of how serious it is. For all practical purposes, the budget might not have been introduced at all. In short, the problem of how to combine anti-inflation with incentives to production seems to have baffled them.

The taxes actually imposed or increased do not excite much criticism. The most striking innovations are a tax on certain forms of betting, and the decision that henceforth only half the costs of advertisement may be allowed as expenses when calculating taxable profits. It is their inadequacy in total and the absence of any discernible financial policy in them which are disquieting. For example, Mr. Dalton pegs the food subsidies, on the ground that to reduce them would be too harsh. But unless he is gambling on a fall in American prices (which the Harriman Committee on aid to Europe has pronounced to be an unjustifiable gamble), pegging the subsidies is exactly the same in principle as reducing them. Moreover, Mr. Dalton has abolished the subsidies on leather, cotton and wool which will react on the cost of necessities hardly less than a cut in food subsidies would have done. He wishes to preserve incentives, but he doubles the profits tax which is not only a deterrent but a deterrent hitting equity shareholders only. He tinkers about with the purchase taxes, thus making the price of some things prohibitive and to that extent leaving purchasing power untouched. He seems far more concerned to disculpate himself from responsibility for the crisis than to take effective measures to meet it.*

A Reconstructed Government meets Parliament

THAT is the more serious because, to return to the dollar problem, taking both parts of the plan to bridge the gap together, the gap will not be bridged. By the end of next year our annual dollar deficit will still be at the rate of £250 million worth of dollars a year, and we shall be left with a dollar and gold reserve (held not only on our own account but on that of the sterling area) of only £270 million. The figures show indeed the need of a Marshall plan; but they are far from hopeless, if the job of bridging the gap is tackled in the right spirit. It must be said that Sir Stafford Cripps's first speech as Minister for Economic Affairs did show the right spirit. He was completely frank and objective. Indeed, supposing that the Government had been defeated and a Minister in a new Government had been speaking, the new man could not have made a very different kind of speech.

* The day after the budget a premature disclosure of its secrets to the press was found to be derived from an indiscretion of Mr. Dalton's. He had no choice but to resign, and has been replaced by Sir Stafford Cripps, the newly appointed Minister of Economic Affairs. Thus the responsibility for economic and financial policy is once more concentrated at the Treasury.—*Editor.*

Sir Stafford owes his new post to a reconstruction of the present Government, which reflects a curious mixture of the sensible and the merely expedient. The sensible part is an obvious attempt to organize the Government in what may be called slabs or groups of Ministers each mainly concerned with one main question. Moreover, a number of new men have been given a chance and a number of junior men given promotion. The expedient part is the allowance which had to be made for different views within the Labour party. The difference is, broadly speaking, between those who think Socialism has gone too fast and those who think it has gone too slow. Thus, though Mr. Shinwell who belongs to the latter group has been shifted from the Ministry of Fuel, he has been given the consolation prize of the War Office. Mr. Aneurin Bevan, far the most formidable of this group, remains at the Ministry of Health. Mr. Dalton, whom some consider the greatest failure of all, is still at the Exchequer.

The same balancing between conflicting sections appears in the King's Speech which opened the new Session. It gave a curious impression of irrelevance to overshadowing problems. Thus, while leaving out the much-canvassed nationalization of the iron and steel industry, it included a proposal to curtail the powers of the House of Lords—a hardly disguised sop to the Left Wing of the party. The Government propose to cut the power of the Lords to delay non-money Bills from two years to one year—obviously to ensure that there shall be time to nationalize steel before their statutory term of office expires. There has been no provocation from the Lords. On the contrary, Ministers have themselves paid tribute to their constructive work in revising Bills, and they have not obstructed a single one.

The Government's proposals do not constitute any kind of a "reform". They do not aim at a more efficient Second Chamber but at an approach to single-chamber government. They are a piece of partisan and electoral manoeuvring, so blatant that they do the Government more harm than good. Nobody expects Socialists to abjure their beliefs, but most people expect policy to have some relevance to admitted national perils. It is only fair to add that the sessional programme also contains much which is desirable, such as the reform of criminal justice and provision for the better care of children.

Parties in Array

SOME have detected in the programme what Lord Samuel called "the first whiff" of a general election. The present writer does not hold that view. The Government have passed the time for an election most favourable to their chances, and it is likely that they hope that 1950 will be more favourable than 1948. But naturally the party conferences—Labour and Conservative—were full of challenge and counter-challenge. These conferences, it must be realized, differ in kind. Decisions of a Labour Conference are binding on the party's leaders, that is to say, on the present Government. Decisions of a Conservative Conference are increasingly influential, but they are not binding. Policy is declared by the leader of the party, who takes care, of course, to fortify himself with a Shadow Cabinet and with soundings of the opinion of the rank and file. The feature of this year's Labour Conference

was a thinly disguised retreat from the election programme. For example, pressure for a shortening of working hours was postponed. Moreover, Mr. Ernest Bevin again achieved a complete triumph for his foreign policy, and Mr. Dalton did not repeat his triumph of the year before. These were all symptoms of a decline from the first fine careless rapture of 1945. They reflected the fact that the middle classes, who were really responsible for the Government's election victory, are becoming irritated and frightened.

The Conservative Conference, on the other hand, reflected some recovery of spirit and of hopes. Its feature was the almost ludicrously easy defeat of a right-wing attack upon the "industrial charter"—a statement of industrial policy prepared by a Committee under Mr. R. A. Butler. It may be asked why this commitment of the Opposition to a progressive policy does not foreshadow some rapprochement with the Right Wing of the Labour party and therefore the formation of a National Government. The answer is that, however much the lines of policy may converge, feelings do not converge at all. The Labour party has the most vivid memories of what happened in 1931. They know that the formation of a National Government would split them from top to bottom. The Conservative party view the Labour leaders with deep mistrust and contempt. In every speech of Mr. Churchill's there is a ring of bitter resentment at the contrast in our national position in 1944 and in 1947. The antagonism is due not so much to the belief that Socialist legislation is wrong as to the conviction that Socialist administration is incompetent.

The International Scene

THE sombre aspect of home affairs continues to be darkened further by international friction. It is not within the scope of this article to elaborate the diplomatic offensive unchained by the Russians against the Western democracies, and the obstacle which this offensive places in the way of the over-long-deferred conclusion of any lasting peace. It must, however, be noted that Russian policy seems to exclude (in spite of Marshal Stalin's statements to the contrary) any economic collaboration. A British delegation to Moscow failed to secure a trade agreement. Moreover, there is little cheerful to be said about the aftermath of the transfer of authority in India. The first consequence has been fearful reciprocal butchery between Moslems and Hindus and the emergence of a refugee problem affecting at least twenty million people. A word must be added on Palestine. The British Government, two years after this course was first suggested by Mr. Churchill, has announced its intention of surrendering the mandate, and the United Nations whose Committee recommended partition shows supreme reluctance to take over the burden. The picture of world affairs, from the British point of view, must be confessed to be one of disorder, danger and retreat.

Some part of this state of affairs is, of course, due to our difficulties at home. Political strength abroad cannot exist in the absence of economic strength at home. As Mr. Bevin has said, nothing would more strengthen his hands in foreign policy than an adequate production of British coal. It is therefore true that the economic crisis affects not only our national life but our national prestige and position.

IRELAND

EXTERNAL POLICY

FOR most Irish people, including many in high places, external affairs have up to this merely meant Anglo-Irish relations. This attitude is a relic of the days when we had neither responsibility nor freedom and when the negative policy of opposition to England without regard to other issues reigned supreme. It has now been rudely shaken by the impact of world events, and there is every indication that the Government are at last realizing that we have wider interests and responsibilities which cannot be ignored. In a world where international trade is no longer free, where small nations cannot stand alone and ideological issues predominate, we must readjust our international perspective or suffer the consequences. The old policy of embarrassing England anywhere and anyhow is no longer possible or desirable. The hostility of the Russian Government towards our application for membership of the United Nations and the vital necessity of playing our part in the solution of the European economic crisis have forced our Government to abandon their ostrich-like policy of isolation. It now seems certain that in the new world which is rapidly taking shape Ireland, for both practical and ideological reasons, must unequivocally take her stand with the Atlantic Powers and the other nations of the British Commonwealth, for with them she shares both ideals and interests. We belong to the West and the Russians have fortunately forced us to say so.

This was clearly shown during the recent debate in the United Nations Assembly. Dr. H. V. Evatt, the deputy Prime Minister of Australia, addressing that body on September 18, declared that it was impossible to justify the exclusion of Ireland from membership. He pointed out that Sweden and Afghanistan were also neutral during the war yet there was no opposition to their admission. Was Ireland, he asked, kept out because it was alleged she was not a democracy? Such an allegation would, he said, be palpably false, because Ireland had a democratic constitution and Government, and the devotion of Irishmen to individual freedom was well known. Ireland was clearly a peace-loving nation, and the Russian veto had been used to obstruct the overwhelming will of the majority. Later in the discussion Mr. Hector McNeill, the representative of Great Britain, asked if anyone could possibly justify the rejection of Ireland as a member of the United Nations. Here was a reputable and stable Government, whose relations with members of the organization were good and cordial. Above all, she was a peaceful nation, seeking by legitimate means to improve at all times her relationship with Powers similarly stable and legal.

Sterling Control

THE identity of political purpose between Ireland and the other nations of the Commonwealth, which these declarations emphasized, has now been reinforced by the economic negotiations, long expected and, indeed,

long overdue, between the British and Irish Governments. These were formally initiated in London on September 19 at the request of the Irish Government. When the Irish Government agreed to take part in the Paris Conference on European reconstruction it became inevitable that they should also seek an economic agreement with Great Britain, for such an understanding would clearly be the best contribution they could make to the wider plan. Moreover, the decision of the British Government to stop the convertibility of sterling raised questions concerning our external trade which had to be answered without delay. Since Great Britain instituted exchange control in September 1939, the British Government has made available to us, against payment in sterling, the foreign exchange needed to meet payments for such goods and services outside the sterling area as our Government considered essential. This arrangement has applied irrespective of whether the sterling so converted into foreign exchange was derived from current earnings or accumulated balances. The nature of these operations is shown by the fact that during the first eight months of this year our purchases outside the sterling area were nearly \$160 million and our dollar income for the first nine months was only about \$24 million. This last figure was made up mainly of emigrants' remittances and tourist expenditure, and included only a million dollars for the export of goods. A drastic reduction in our supply of dollars, which is inevitable, must therefore affect our imports, thus creating further inflation.

Speaking at Letterkenny on September 14, Mr. Sean Lemass, the Minister for Industry and Commerce, made it clear that the Irish Government were ready and willing to co-operate in any measure proposed to protect sterling, in which he said our interest amounted to about £400 million. They would like, he stated, a plan for the development of the whole sterling area and not a scheme designed to benefit Britain alone. The resources of the sterling area were, he said, immense, and, if properly utilized, would be adequate to meet the needs of its inhabitants and to re-establish the freedom of international trade. He added that we could not agree to any plan for a European Customs Union which prevented us from developing our industrial resources, but emphasized that it would be foolish to think that we could maintain in this country a tolerable way of living if all our European neighbours went down in a welter of disorder. Anything that promoted the creation of a workable economy was a direct benefit to us. These wise and courageous words prove that Mr. Lemass learnt something during his visit to Paris.

The London Conference

A STATEMENT issued after the preliminary conference between the British and Irish Ministers, headed respectively by Mr. Attlee and Mr. de Valera, said that they had "explored in general terms the possibilities of dovetailing to their mutual advantage plans for increasing supplies from each country to the other". It is understood that the proceedings were also dove-like, that Mr. de Valera and his colleagues were highly pleased with their reception, and that agreement was reached on general principles. The discussions, which ranged over the whole field of trade and finance, have since

been continued at the official level in order to reduce the general agreement to concrete terms. The essential needs of both countries are, of course, obvious. Ireland wants from Britain coal, capital goods—particularly machinery—dollar credits, feeding-stuffs and fertilizers. Britain, on the other hand, wants from us cattle and agricultural produce. Unfortunately the policies of our respective Governments and the after-effects of the war render it extremely unlikely that immediate satisfaction of these requirements can be secured. Britain has some capital goods but little coal and fewer dollars for our use, while, as the volume of our agricultural production has fallen steadily since Mr. de Valera took office and is now 20 per cent less than in 1930, our margin of surplus produce for export has seriously diminished and in some products, like butter and bacon, is not sufficient to meet our own demand. The policy of his Government has been to build up small secondary industries dependent on imported raw materials, instead of concentrating on the development of our great primary industry—agriculture—and then building other suitable industries on that sound foundation. It is reasonable to suppose that these disconcerting facts are well known to the official negotiators, and this may explain the delay in reaching a conclusion. They may have even affected Mr. de Valera's views, for in a statement issued before his departure for London he pointed out that we can only obtain from other countries the things we do not produce by giving them in return, on a fair basis of exchange, what they want from us. We cannot, he emphasized, have the things we require if we will not work to produce them, and the more we need the harder we must work. It is to be hoped that his Government will now proceed to put these excellent elementary principles into practice.

The Paris Conference

FROM London Mr. de Valera proceeded to Paris, where, on September 22, he signed on behalf of Ireland the Report of the Paris Economic Conference. He said he was happy to do so, for he believed it to be an honest report. In it self-help was recognized as a primary duty and no more aid was sought than was absolutely necessary if the damage of the war years was to be made good in a reasonable time, and the nations of western Europe restored to a position in which they could provide for their own needs and preserve their traditional civilization. Ireland played a considerable part in the deliberations of the Conference and was represented on several important committees, two of which were presided over by Irish officials. Ireland's four-year production target, as disclosed in the technical report made to the Committee of European Economic Co-operation, provides for an increase of 25 per cent in milk, butter and poultry, of 50 per cent in processed milk and 60 per cent in cheese. Supplies of eggs and pigs are to be doubled and the percentage of fats to be increased by 150 per cent. To secure these results imports of fertilizers are to be increased, and we expect that coal imports will be back at the pre-war level of 2,500,000 tons by 1950. Petroleum imports are to be doubled during the next four years and our merchant fleet is to be increased from 50,000 to 100,000 tons by the end of 1949. These are ambitious, and let

us hope not too optimistic, estimates. They emphasize the necessity for increased agricultural production.

Germany and Ireland

LIGHT has recently been thrown on another aspect of our external position by the release of documents* from the German naval archives which show that, after the abandonment of the invasion of England (Operation Sea-lion) in the autumn of 1940, Hitler decided against the occupation of Ireland unless Mr. de Valera invited his assistance, but that Raeder considered such an operation impracticable in any event, because there would be no possibility of maintaining a supply line and whatever forces were landed in Ireland would be isolated from the very first. *The Irish Times* has also recently published a series of posthumous articles by Dr. Hermann Goertz, a German Intelligence officer who was dropped by parachute in Ireland in May 1940 and remained at large for some time. He poisoned himself in Dublin last May when he learnt he was to be deported to Germany. These articles disclose that the German aim was to attack British communications in Northern Ireland from the south. They also reveal the contempt of a trained European soldier for the I.R.A., which he describes as worthless, undisciplined and completely incompetent.

Economic Perils and Industrial Unrest

THE thousands of British tourists who visited Ireland this summer must have returned with a very false idea of our economic position. Surveying our well-filled shops and eating our apparently unlimited food, they may well have concluded that Ireland is a new Eldorado. This is far from being the case. During the first six months of this year we exported £16 million and imported £52 million of goods, leaving a visible adverse balance of £36 million. Owing to invisible exports of £26 million the real adverse balance is, however, only £11 million. This deficiency is due in part to filling the import vacuum left by the war years, and in part to an attempt to realize our sterling balances, but it is also caused by the progressive decline of our export trade. The volume of our exports in 1946 was less than 73 per cent of the volume of 1938. The necessity for a reduction of all but essential imports seems obvious. Moreover, during the last year the cost of living has risen by 10 per cent and has now reached the record figure of 319 points, an increase of 26 points as compared with August 1945. This rise is primarily due to the increase price of agricultural produce and of imported raw materials. While prices are now 84½ per cent higher than in August 1939 wages have risen, on average, less than 50 per cent.

These economic pressures, now ended, have had inevitable repercussions of industrial unrest and social discontent. A strike of the road-transport passenger-service employees stopped all bus services for over a month. The employees not only struck before the Labour Court considered their claims, but also refused to accept the award of the Court, which granted them a moderate increase, maintaining that it was not adequate to meet the increased

* Führer Conferences on Naval Affairs, 1940.

cost of living. A bank strike was also threatened and the bank officials, having rejected the recommendations of the Labour Court, which included an extremely fatuous suggestion of the bank directors that the officials should agree to divide their forces by forming a special organization for senior officials, adopted a "go-slow" policy as regards hours of work. This naturally caused congestion of business and forced the directors to apply to the Government for permission, which was granted, to close the banks for several days in order to overtake arrears. Finally both sides agreed to meet and discuss the questions at issue without conditions, and a settlement was arrived at. Public opinion was almost entirely on the side of the officials, who are underpaid and overworked, and it seems clear that the directors mishandled the matter from the start. It is obvious that our banking system needs both consolidation and overhaul; at least half the branches maintained by the banks are redundant and more than half the directors otiose.

Migration and Emigration

THE tourist influx, which this summer reached enormous proportions and constitutes one of our main invisible exports, has also caused public criticism. The presence of so many visitors well provided with sterling has naturally had an inflationary effect, and it is inevitable that the average Irish citizen should feel annoyed when, as frequently happened this year, he could not obtain accommodation in his usual hotel or restaurant because it was filled with English visitors. But from the national point of view this is a short-sighted attitude, for it is more economic to sell steaks than steers, and our friendly invaders represent a claim on Britain which cannot be ignored in settling our demand for dollar credits. What really matters is the balance of payments, and in that respect tourist expenditure here counts just as much as direct exports, if not, indeed, more.

A far more serious problem is raised by uneconomic exports of another kind, namely, the alarming increase in the emigration of our younger people, particularly girls. In 1946 14,000 girls under 24 years left the country for employment elsewhere, principally in Great Britain. This serious drain, concerning which the Catholic Hierarchy has recently expressed grave alarm, is rendered more serious by the fact that this country is barely able to hold its own in the net reproduction rate, largely owing to late marriages. In order to meet at least in part the demand for specially qualified persons and domestic servants, the Irish Government has recently announced that it is prepared on request by prospective employers to grant entry permits to suitable aliens. The Northern Ireland Government, on the other hand, has, for political reasons, recently introduced legislation for the purpose of preventing emigrants from the rest of Ireland from obtaining employment in that area.

Inflation and the Government's Remedy

THE Central Bank, a Government institution which is charged by statute with the "constant and predominant aim" of ensuring "the welfare of the people as a whole", in its annual report for the year ended March 31,

1947, states that "the tendency towards an unhealthy inflation . . . has in recent times shown marked evidence of becoming worse and now demands vigorous measures to check it". The Directors recommend a drastic curtailment of public expenditure, and point out that it is more important to improve "real" wages by checking price increases than to raise nominal wages and so cause further price increases. They add that the volume of money and the spending power of the public are expanding out of all proportion to the supply of goods. In this situation the scarcity of dollars must have serious results. It is, therefore, difficult to understand the naïve statement of Mr. Frank Aiken, the Minister for Finance, made in the Dáil on October 8, that the lack of dollars was not expected to cause a grave crisis in the country's economic life. In fact, as he himself stated a few days later, we bought £9·8 million worth of goods from the United States in the first six months of 1947, including coal, wheat, petrol, lorries and cars. It is, moreover, probable that owing to the poor yield of the grain harvest we shall import a large amount of wheat from the dollar area during the coming year. Our industries and railways have been dependent on American coal for over six months, and we have imported over half a million tons in that period. Without the dollars to purchase these essential commodities our plight would be grave indeed.

The Government's policy to meet the perilous situation caused by the rising level of prices and wages was announced by Mr. de Valera in the Dáil on October 15. Their aim is to maintain such control over prices as will be effective in ensuring that only such variations occur as are justified by variations in cost; to affect the higher costs of essential commodities by means of subsidies so far as it is practicable to do so; and to acquire, either by agreement or legislation, such control over wages as will be effective in relating future wage variations to the cost of living. The Government's detailed proposals to attain these ends involve the reduction of the cost of living index by 13·2 points or approximately 4 per cent, through additional subsidies, amounting to £5,520,000 per annum, on flour, bread, tea and sugar. As a result the price of a four-pound loaf will fall by 1½d., tea by 2s. 2d. a pound and sugar by 2d. There is also to be a subsidy on fertilizers which will enable them to be sold at last year's prices. To meet this increased expenditure the Minister for Finance introduced on the same day a supplementary budget. Income tax would, he announced, be increased next year by 6d. in the £ to 7s., and new taxes would be imposed at once on beer, spirits, wine, tobacco, furs and cosmetics. In addition he provided for increases in the rates of surtax, entertainment duty, road tax on motor-cars and stamp duties on the sale of property. Purchasers of land or houses who have not been resident here for the last three years will have to pay an *ad valorem* stamp duty of 25 per cent. This last duty is clearly designed to stop the inflation of land values caused by the invasion of wealthy British emigrants anxious to secure Irish property at any cost. The other aspect of the Government's policy is shown in the Industrial Efficiency and Prices Bill, recently introduced in the Dáil, which provides for the general control of prices, profits and trading methods, the promotion of industrial efficiency and the

establishment of "working parties" or development councils for industry. This last measure is naturally most unwelcome to our highly protected industrialists, although Mr. Lemass, the Minister for Industry and Commerce, has expressly stated that so long as a commodity or article is efficiently made and sold at a price comparable with those ruling elsewhere the Government will not limit the profit earned on the transaction. He added that the Government favoured private enterprise as against State trading or Government direction of industry and commerce. Mr. de Valera said during the debate that an effort would be made, in consultation with trade-union leaders, to persuade workers as a temporary measure to agree not to make any further demands for higher wages. If, however, such agreement proved impossible legislation would, he indicated, be introduced to stabilize wages at present rates. This is, of course, the weak link in the chain, for it is hard to see how such a policy could be enforced unless the rank and file of labour proves amenable, which is extremely unlikely. Briefly the Government's plan is to base wages on the new cost-of-living index figure, stabilizing at this level the wage rates now existing, either by agreement or by an award of the Labour Court, but providing for an upward movement in the event of a further rise in the cost of living. The Trades Union Congress has described this proposal as "drastic and ill-considered", but the trade-union leaders as a whole seem prepared at least to examine the Government's plan, and may eventually agree to give it a trial. They will certainly ask for larger subsidies and a stringent tax on profits. The labour movement, however, still lacks coherence and effective leadership. In general, the Government's policy may be described as a belated attempt to retrieve the serious error which they made last year when they removed the stand-still order on wages without first attempting to reduce prices or increase the supply of consumer goods by removing tariffs. The new taxation will have the effect of shifting the increased cost of living from essentials to non-essentials. It will reduce the cost-of-living index figure but increase the cost of living—unless people are prepared to change their habits. The average working paterfamilias who drinks a pint of beer and smokes twenty cigarettes a day will suffer a net loss and, though we are promised a new cost-of-living index figure based on international standards, it will apparently take years to calculate. In the meantime we are told that new ration books are imminent!

The People's Verdict

THREE by-elections in widely separated and very different constituencies—Dublin, Waterford and Tipperary—long overdue, were held on October 29 and gave the people's reaction to these events. In County Dublin and in Waterford the contest was between Fianna Fail (the Government party), Fine Gael, Labour and Clann na Poblachta (Republican party);* in Tipperary the Farmers' party also entered the lists. Mr. de Valera made the result of these elections a matter of confidence and announced repeatedly during the election campaign that if the Government was defeated in any of the three constituencies there would be a general election. The results showed that

* See THE ROUND TABLE, No. 145, December 1946, p. 81.

the number of first-preference votes cast for the Government candidates had dropped by nearly 50 per cent and the Clann na Poblachta candidates were elected in both Dublin and Tipperary. In County Dublin Mr. Sean MacBride, S.C., the energetic leader of the new party, had a majority of 9,432 over the Government candidate. Confronted with this challenge to his Government's authority, Mr. de Valera immediately issued a statement to the effect that a weak Government could not deal effectively with the conditions which may confront the country in the coming year. An opportunity must be given to the people to indicate their will and give their judgment. Accordingly he would seek a dissolution of the present Dáil as soon as practicable and a general election would be held early next year. His Government will doubtless first pass into law the supplementary Finance Bill and the measure recently introduced to provide for a redistribution of seats and an alteration of electoral areas. This Bill will greatly increase the number of three-member constituencies and so decrease the value of proportional representation. The present state of representation in the Dáil is: Fianna Fail, 76; Fine Gael, 27; Labour parties, 12; Farmers' party, 11; Independents, 10; Clann na Poblachta, 2. The Government has therefore an over-all majority of 14. Mr. de Valera's Government has now been fifteen years in office and, with the exception of that in Northern Ireland which has lasted for a quarter of a century, is the oldest in the world. While it may possibly survive the coming election, its days would seem to be numbered.

A Northern Dominion?

AN interesting sidelight was recently thrown on the changing attitude of Northern Ireland by the declaration of Mr. W. F. McCoy, K.C., M.P., who, in a speech at an Orange demonstration in Dungannon, urged that Northern Ireland should be granted Dominion Status with all that this implies. Mr. McCoy is an influential member of the Government party, and although his views on this question are presumably only personal they have not been officially disavowed. It is interesting to recall that when this course was suggested in these pages exactly thirteen years ago as a possible approach to the solution of the Irish *impasse* it was rejected by a spokesman for Northern Ireland.* But whatever value may be attached to Mr. McCoy's statement, it indicates quite clearly that the ruling party in Northern Ireland feel mighty uncomfortable as a satellite State of a British Socialist administration. It still remains true that the granting of Dominion Status to Northern Ireland would enable both Irish Governments to meet as equals and adjust their differences without outside interference.

Ireland,

November 1947.

* See THE ROUND TABLE, No. 97, December 1934, p. 40 and No. 98, March 1935, p. 259.

CANADA

THE DRAIN OF DOLLARS

BEFORE his departure for the royal wedding, Prime Minister King announced that the Canadian Parliament would meet on December 5—about seven weeks ahead of its regular winter opening. In making this announcement, Mr. King emphasized that the primary purpose of the advanced date was to give legislators a chance to study and review the Geneva trade agreements. Mr. King indicated that there might be "other matters" as well for Parliament to discuss.

Despite Mr. King's refusal to be more explicit about these "other matters" or to be drawn into any discussion of them, it is now a widely held expectation that the most important and compelling business which will be before the Parliament of Canada when it reassembles is the introduction of a "new national policy" aimed to conserve the country's dwindling reserves of American dollars and bring about a long-range adjustment in the trade balance of these two countries.

As this correspondence is written, the design of necessary action to achieve these goals is still shrouded in the mysterious depths of official secrecy. It is reported that there has been considerable difference of view among Government advisers on the extent and timing of measures to be taken. Another difficulty has been the necessity of action, considerably in advance of information, about the extent and conditions of possible dollar aid under the so-called Marshall plan. (It will be remembered that the Paris Conference report indicated that some \$6,000 million of aid must come from the dollar countries outside the United States. About half of this sum has been unofficially suggested as representing Canada's "share". But the major "unknown" is whether or not any or all of this responsibility would be underwritten by the United States; in short, whether or not any appropriation of U.S. funds for European aid would be expendable for goods outside the boundaries of the United States itself.)

Most official thinking at Ottawa concerning the Canadian dollar problem appears to start by emphasizing the fact that the country's over-all balance of trade has been, and still remains, favourable. It is then pointed out that within the security of this favourable position, and because of the expectation that the balance would continue favourable, the Government made very substantial post-war credits to Britain and to European countries. These credits amount to something better than \$1,800 million. Of this total, \$1,250 million was a long-term loan to Britain on terms very similar to those granted her by the United States.

Had these loans been drawn upon more slowly or had the over-all Canadian balance of trade remained sufficiently favourable, all might have been well. But neither expectation was fulfilled. On the one hand, Great Britain, for reasons well known to the world, was forced to draw on her Canadian loan

at a rate substantially faster than had been expected. At the same time, Canadians themselves developed a vast appetite for American goods of every sort and description. These imports rapidly filled the vacuum caused by substantial capital exports built around Government loans—a situation met largely at the cost of a rapid depletion of the Government's war-time reserve of U.S. dollars.

Presumably steps might have been taken at any time to effect a cure had it been thought that the situation had reached sufficiently serious proportions. There could have been a refusal to ship further goods on credit to Britain and Europe. Or there might have been a deliberate lowering of Canadian living standards by the placing of an embargo on imports from the United States. Despite an official public warning as early as February 1947, when the Bank of Canada issued its annual report, it was only in the late summer that the dilemma reached what were considered to be crisis proportions.

There is one further condition which did, in fact, play an important part in this situation during 1945 and the early part of 1946. This was the importation of capital from the United States during that period.

In 1945 the balance-sheet of sales and purchases of securities as between Canada and the United States showed a net credit in Canada's favour of \$220 million. Up to July 1946 the favourable balance for the first six months of the year was \$141 million.

How long this substantial inflow of capital might have continued is a matter of conjecture. But the action of the Federal Government in July 1946 of returning the Canadian dollar to parity with the U.S. dollar (it had been at a discount of 10 per cent since September 1939) effectively blocked this source of U.S. funds. The favourable monthly balance started to dwindle. By December 1946 there was a small outflow. In the first seven months of 1947 the net "unfavourable" balance has been about \$4 million.

Trade with the United States

MEANWHILE, Canadian purchases from the United States were multiplying. Omitting the war years as abnormal, the general level of Canadian imports from the United States during 1938 had been of the order of \$35 million monthly. By January 1946 the corresponding figure was about \$90 million. By midsummer 1947 it had reached the unprecedented height of over \$180 million monthly.

The balance-of-payment figures on merchandise account were equally disturbing. True, Canadian exports to the United States during 1947 were four times (by value) their pre-war level. But in the first nine months of 1947 the Canadian dollar deficit with the United States (on merchandise account) had risen to a cumulative total of \$720 million. It continued to rise at a monthly rate of between \$80 and \$90 million each month. The corresponding deficit in 1938 was of the order of \$150 million for the entire year.

What has been the nature of Canadian imports from the United States?

Out of \$1,400 million of imports in 1946, the main groupings of Canadian purchases were as follows: industrial equipment, \$200 million; fuel, \$140 million; foodstuffs (chiefly fresh fruits and vegetables), \$105 million; auto-

mobiles and parts, \$120 million; consumer goods (other than food), \$145 million; raw cotton, fabrics, &c., for manufacturers' use, \$120 million; iron, steel and other components for manufacturers' use, \$200 to \$250 million; farm machinery, \$71 million; construction materials, \$36 million.

With perhaps the important exception of cotton textiles, where Canadian purchases have soared sensationally owing to inability to get customary supplies from other traditional sources (chiefly Great Britain), the list reflects in the main the greatly expanded purchasing power and full employment which Canada has enjoyed since 1940. Net national income is estimated for 1946 at \$9,500 million compared with \$3,940 million in 1938. This in itself would be expected to do more than double Canadian purchases from the United States. As well there is an over-all price increase of close to 50 per cent, plus the further abnormal demand for capital and other durable goods needed both for post-war reconstruction in Canada and to fill the vacuum caused by inability to purchase during the depression and the war years. There is therefore little cause for wonder at what has happened since reasonable supplies of U.S. goods became available.

But how to resolve the problem—a problem met in earlier years either by conversion of excess sterling into dollars or by capital imports from the United States?

For and against Devaluation

ONE course freely suggested has been to devalue the Canadian dollar by a stated amount—say, 10 or 15 per cent—or even to let the dollar go “free” in the U.S. market. Ever since the return to parity in 1946 there have been recurrent rumours that the Government was about to devalue. Mr. D. C. Abbott, Minister of Finance, referred to these rumours recently as “Friday night” rumours. He suggested that they were inspired by brokers and other interested persons connected especially with the important gold-mining industry, who would stand to gain the most direct and immediate benefit from such a move. (Since 1941 the output of Canadian gold had been declining steadily until early this year. A peak output of about \$200 million annually had slumped to less than half that amount under the pressure of rising costs and scarcity of manpower. The final setback had come in July 1946, when the return to parity robbed the mines of a “premium” of \$3.50 per ounce which they had been obtaining because of a “ninety-cent” Canadian dollar, and which they were unable to regain short of an outright subsidy by the Government. Other major exporters, such as the Canadian newsprint industry, were able to raise their prices almost immediately. But no such relief was possible in the case of gold-mines, whose product was purchased by the Government for resale at the fixed price of \$35 an ounce, U.S. funds.)

Advocates of devaluation argued that it was the “natural corrective” for a country faced with a heavy and increasing adverse balance of trade *vis-à-vis* the United States. Not only (it was argued) would gold-mining be again revived, but exports in general stimulated, and imports correspondingly checked. It was argued that if the official limit of a 10 per cent

devaluation permitted under International Monetary Fund rules was insufficient, then the Government should let the Canadian dollar "go free" and permit it to find its own level, the implication being, presumably, that it would come to rest at a point where the balance of trade between Canada and the United States would again be equalized.

Although "official" Government thinking on this question of devaluation has not been spelled out for some considerable time, there is little doubt that most, if not all, Canadian officials and ministerial advisers adhere to the view that this is not the proper solution of the country's dollar problem. Nor has there been any evidence that this course was being considered, even as a partial solution, short, perhaps, of a general "revaluation" of European and other currencies from the official rates chosen at the time the International Monetary Fund came into being.

Those who make the case against devaluation argue that Canada is not a country whose over-all balance of trade is unfavourable. They point out that Canada has no difficulty in selling her goods on world markets because they are too high priced. On the contrary, the internal purchasing power of the two dollars (Canadian and American) suggests a balance considerably in favour of Canada. (Canada retained her war-time controls over prices and supplies much longer than did the United States. She still retains an embargo on many items, such as meat and other agricultural products, to meet her European commitments or to prevent them from being sucked into the higher-priced U.S. market. Similarly, U.S. housewives pour across the Canadian border and bring home shopping-baskets tightly filled with cheaper Canadian foodstuffs.) In short, Canada could presently export more of almost everything if she could produce it—a situation which would be further aggravated if a substantial added increment were to be given to all export industries through devaluation.

It is further argued that possibly two-thirds of the current level of U.S. imports represents items such as coal, steel, petroleum, capital equipment, components, machinery, &c.—items which under present circumstances would probably have been bought in any event by Canadians. To add a premium of 10, 15, or even 25 or 30 per cent in terms of U.S. dollars would merely aggravate Canada's balance of payments and increase the country's capital costs and operating expenses. There is also the burden added to capital account to meet interest on the debts owed by Canadians in the United States and payable in U.S. currency.

Apart from devaluation, other suggested solutions include (a) the floating of a substantial Canadian loan in the United States; (b) the imposition of restrictive measures to curb U.S. imports; (c) the stimulation of Canadian exports to the United States; (d) expansion of domestic sources of raw materials, manufactured goods, &c., so as to reduce dependence on the United States; (e) reduction in "credit" sales abroad.

The world-wide scarcity of American dollars is in itself bringing some corrective by restricting credit sales for certain types of goods which Canada had been selling freely since the end of the war. This possible relief is limited by long-term commitments for the sale of Canadian foodstuffs, metals,

timber, &c., to traditional markets such as the United Kingdom. Canada is loath to abandon these markets because of their long-term importance and because they provide an outlet for agricultural and other primary products which are not traditionally saleable in the United States.

Some limit has been placed on these sales by requiring all countries to whom post-war trading credits have been extended to pay a certain proportion of the price in U.S. dollars. The most important such agreement was negotiated with Great Britain in June 1947. It requires Britain to settle half of her current balance with Canada in U.S. dollars. Thus in October 1947 it was estimated that the proceeds of the British line of credit in Canada, which stood at that time at about \$430 million, could be made to last an additional twelve to fourteen months. Fifty per cent of any outstanding balance is paid out of the loan. The remainder is paid by Britain in U.S. dollars. (This procedure is justified by the argument that since the United States cut off the British loan in mid-August, Canada is the only "dollar" country that is not requiring payment of outstanding indebtedness at the full rate of one hundred U.S. cents to the dollar. Moreover, most British purchase contracts are at prices considerably below the current world rate—a circumstance which makes the Canadian arrangement doubly "generous".)

No single "solution" appears justifiable as wholly adequate to meet the country's problem and bring the dollar account into reasonable balance. Canada ended the war with a fortuitous U.S. dollar reserve of about \$1,500 million. At the end of 1946, despite considerable capital imports and additions to her U.S. dollar reserve from many countries with which she carried on trade, this balance had shrunk by a further \$260 million. The really serious drain occurred, as has been noted, in 1947, when as much as \$700 million may have been withdrawn. In general terms, it is estimated that by the end of 1947 the Canadian dollar reserve will have reached a point below which further inroads would become dangerous unless steps had meanwhile been taken to reverse the present decline.

The Possibility of Borrowing

ALMOST certainly some recourse will be had to borrowing in the United States—not by way of a "political" loan at Washington, but more probably by one or more direct flotations in New York, and quite possibly by specific borrowing for earmarked trade items through the U.S. Export-Import Bank. It is not unlikely, too, that Canada may draw on the \$75 million (U.S.) that will be available to her within the next twelve months through the International Monetary Fund.

The argument for these borrowings would be tied essentially to two considerations: (a) that the present rate of spending by Canadians on U.S. goods is not likely to be maintained over a long period; (b) that within a reasonable period of time constructive measures can be initiated which will of themselves increase dollar earnings and especially Canadian exports to the United States.

What is indicated here is that, alongside any programme of short-term restrictions intended to bring about immediate conservation of the present

outflow of U.S. dollars from Canadian reserves, there should and must be the design of what is virtually a new "national policy" aimed at integrating the two economies more closely.

The first official approach to this policy was given in a public address by the Hon. D. C. Abbott on October 30 in Montreal. At that time the Minister of Finance set down as objectives for Canadian exporters that they must first "seek to narrow the gap" in their trading accounts with dollar countries by exporting more goods to those countries. Next, that they must "seek to diversify exports to the dollar countries by combining a greater proportion of processed and manufactured goods". More specifically he singled out the Canadian branch plants of U.S. subsidiaries (there are 2,000 of these in which \$2,300 million has been invested) as the spearhead in this campaign of industrial integration. He said:

"A salient feature of the present-day manufacturing industry in Canada is the existence of several thousand branch plants and subsidiaries directly related to large parent firms in the United States. This development occurred mainly in those industries associated with the spectacular growth of modern mass production methods, concentrated in the last two or three decades. Their development occurred largely to take advantage of markets protected by substantial tariffs and perhaps even more so to penetrate the commonwealth markets made available by the system of Imperial Preferences. We are all familiar with the great benefits reaped by our country in terms of employment, income and living standards which accompanied this tremendous inflow of capital. What is not so well known, however, is that the branch plant system and the resultant heavy demand for imports from the United States is intimately connected with the wide gap in our trade with that country. What I mean is this, there is a continual, heavy, one-way flow of parts, materials, machine tools, etc., to feed and service these branch plants, the products of which form a significant part of our exports not to the United States but to non-dollar countries. This uniformly one-way flow of trade was understandable and unavoidable in the early states of development. These plants to-day, however, are lusty, strong and modern giants capable of competing anywhere in the world. By a process of specialization and by the application of the right kind of initiative and salesmanship, these goods can be made to flow and must be made to flow both ways. This can be an important new source of exchange which will permit us to continue to buy the supplies we must have from the United States. In addition to providing dollars there are tremendous economies to be reaped from an extension of integration and specialization which this process entails. To a large extent these arrangements will have to be worked out by individual firms within the framework of their special circumstances and requirements. Too often when the question of exporting manufactured goods to the U.S.A. and other hard-currency markets is put forward, the familiar objections and difficulties are raised. Large domestic markets, mass production techniques, U.S. customs procedure, the tariff structure of our own dollar countries are pointed to as insurmountable obstacles. I maintain that the basic competitive position of Canadian plants is sound. Our techniques of production, managerial skill, and skilled labour force compare favourably with the finest anywhere in the world. In isolated cases where this is not true, they must be made competitive. Where the obstacles consist of artificial barriers, such as tariffs and customs practices, they must be modified. Where the obstacles are created by marketing practices and conventions within particular industries, they must be adapted to our present needs."

One of Canada's most difficult problems at home and abroad will be to convince her own people, as well as affected interests in the United States, that any restrictive programme on which she embarks in order to conserve dollars is not a reversal of her past, present and continuing faith in the principles of "expansionist multilateral trade". To quote again Mr. Abbott:

"I am convinced that the ultimate solution of present difficulties not only for Canada, but for the whole world must be in expanding world trade, in lowering and eliminating artificial barriers, restrictions and discriminatory practices. This is the only road to world prosperity and rising standards of living. Although this proposition is universally true, it has greater significance for Canada than perhaps any other country, because Canada has been and will remain more dependent on a high level of foreign trade than perhaps any other great trading nation. We should bear in mind too that nothing we may do now to overcome our present temporary difficulties must be permitted to place serious obstacles in the way of progress toward a multilateral trading world."

Canada,

November 1947.

AUSTRALIA

THE DOLLAR CRISIS

IN recent months domestic politics have reflected international economic events. The dollar crisis has had important repercussions upon Australian trade policy. The inflationary trend throughout the world is making itself felt on the level of Australian prices and wages, with important implications for Commonwealth-State financial relations. And the Government is apparently so impressed with the desirability, in the event of an international economic collapse, of maintaining effective control over the machinery of credit creation that it proposes to take the extreme step of nationalizing the trading banks.

As early as February last the Prime Minister warned the country that Britain's dollar position was very serious and that cuts in Australian imports might become necessary in order to help Britain. By the end of April there were signs that Australia's own trade position was deteriorating. In that month the surplus of merchandise exports over imports, which had averaged £A6.7 million per month over the previous nine months, fell to zero and, although in subsequent months it recovered slightly, there was a deficiency of £A6 million in July and £A3.6 million in August. Thus, although over the twelve months ended June 1947 the trade surplus totalled £A78 million, most of it accrued in the earlier part of the period.* Moreover a substantial part of the surplus appears to have been accounted for by the shipment of stocks of wool purchased and paid for by other countries during the war, but left in Australia for storage. Consequently, the surplus of actual receipts for exports over expenditure upon imports was much below the above figure, and was not more than sufficient to meet debits in respect of war expenditure overseas, including £A6 million for the lend-lease settlement with America and £A25 million for the gift to Britain. Had it not been for the latter, the surplus of external receipts over trade expenditure would have sufficed to pay most of the interest on overseas loans. As it was, our foreign exchange reserves were depleted by £A15 million, in spite of much investment of overseas capital in Australian industry.†

When trade with individual countries is examined, it is found that the deterioration since April has been most marked in respect of the dollar countries. With the United States, Australia had a surplus of merchandise exports over imports of £A1.4 million per month in the nine months ended March, but in the following quarter exports declined and imports increased to such an extent that there was a monthly deficiency of £A3.2 million. In

* This was not a normal seasonal movement. In 1946 the surplus of exports over imports averaged £A4.8 million per month in the quarter ended June and was £A9.4 million in July and £A11.4 million in August. Since then imports have increased rapidly, whereas exports, after reaching a peak in August 1946, fell off and did not recover until May 1947.

† White Paper on National Income and Expenditure, 1946-47, Table 4.

July and August the situation was still more serious and the deficiency for each month amounted to £A7.4 million. It is probable that the high level of exports prior to March was largely accounted for by the shipment of wool purchased in previous years as explained above. According to the National Bank the predominant cause of the subsequent increase in imports was "a more liberal granting of import licences for American textiles and other commodities—a policy which has proved to be temporary and has been followed by more stringent control". If this explanation is true, it suggests that the Customs Department was misled by its own export statistics, the high level of shipments being interpreted as ensuring a high level of dollar receipts. With Canada, Australia has always had a deficiency of merchandise exports against imports, but the deficiency rose from a monthly average of less than £A1 million in the nine months ended March to a monthly average of £A1.5 million in the following quarter. The deficiency was £A2.1 million in July and £A1.2 million in August. It is thus clear that Australia has a dollar problem of her own, but there is still a widespread disposition to think too exclusively of the dollar crisis as a British problem.

The ill-fated restoration of the convertibility of sterling and the formal abolition of the sterling-area dollar pool on July 15 might have been of some advantage to Australia had her own dollar position remained favourable, but its rapid deterioration made Australia increasingly dependent on Britain's dwindling dollar resources. In a few weeks it became clear that Australia as well as Britain would have to restrict her dollar expenditure, and that some restriction of imports from Britain might also be necessary in order to permit the diversion of British goods to dollar countries.

Parliament was in recess from June 6 to September 17, and the Prime Minister spent most of July visiting party organizations throughout Australia, but he returned to Canberra at the end of the month. A few days later it was reported that the Customs Department had been instructed to undertake an examination of Australian imports from North America and Britain with the object of classifying them according to "their priority for national purposes" and the existence of local substitutes. Mr. Attlee's "austerity speech" on August 6 was followed a week later by the Australian Cabinet's decision, after an all-day sitting, to reduce the existing petrol ration by 20-25 per cent for private users and by 10 per cent for commercial users; to ration dollar allowances to travellers; and to review dollar expenditure on tobacco, films, newsprint and a long list of miscellaneous items. This review was accelerated after Britain's suspension of the convertibility of sterling on August 20, and on September 2 the Prime Minister announced drastic reductions in all dollar imports, except essential machinery and raw materials. In addition to textiles, for which the issue of import licences had been suspended at the end of May, the most important cuts were in motor chassis (20 per cent), tobacco (20 per cent), film royalties (30 per cent) and newsprint (30 per cent). Remittances by entertainers were also to be restricted and a long list of minor imports was entirely banned, including such items as cosmetics, motor tires, washing-machines and musical instruments. It is reported that these cuts are expected to save about \$40 million (= £A12½ million)

per annum, but, extensive as they are, it is not officially expected that they will suffice to close the gap between dollar receipts and dollar expenditure. Further cuts may therefore be expected.

The Geneva Trade Negotiations

IT is ironical that these drastic import cuts should have become necessary even before the completion of the efforts being made in Geneva to reduce tariff barriers and other obstacles to world trade.

Australia entered on these negotiations in spite of protests from various groups who felt their interests to be threatened by the programme drawn up at the first session of the Conference in London late last year, and by the evident desire of the United States to eliminate imperial preference. These protests came not only from primary producers, who were the most obviously threatened, but also from certain manufacturing interests which were alarmed at the possibility of a reduction of the tariff on United States goods to the same level as the preferential tariff on British goods, which they have in the past frequently criticized as being too low. At one time it also appeared possible that participation in the Geneva talks, like acceptance of the Bretton Woods Agreement, would be opposed by some elements in the Labour party itself, but this danger was averted by the Prime Minister's victory on the Bretton Woods issue.*

The Prime Minister, in several statements to Parliament, has made clear his Government's attitude to the Geneva negotiations. On March 12 he stated that "the Government has always fought to retain Imperial preference because of its economic value to certain Australian industries . . . but neither New Zealand nor Australia can maintain preferences which other Empire countries are not prepared to continue. The British Government believes that some concessions will have to be made if it is to join in the world trade organizations."

By this time the negotiations had been halted in consequence of efforts in the United States Congress, first to raise the duty, and, when that failed, to impose a quota on imported wool. The United States duty on wool has long been 34 cents per pound, on a clean basis—equivalent to about 100 per cent protection in 1939. A reduction of this high rate has always been the aim in trade negotiations with the United States, and in 1940 a reduction to 17 cents was under discussion. To raise the duty seemed therefore to slam the door on any possibility of lowering tariffs or reducing Empire preferences so far as Australia was concerned, and the trade talks were interrupted

* See THE ROUND TABLE, No. 146, March 1947, p. 195. The decision taken last December by the Parliamentary Labour Party to submit the Bretton Woods issue to a special Federal Conference of the Labour Party did not get the requisite support from the State branches of the party, and early in March the Prime Minister was therefore able to re-submit the issue to the Parliamentary Labour Party. On this occasion the party caucus reversed its previous decision and approved the introduction of legislation to ratify the Bretton Woods Agreement. The legislation was passed shortly afterwards by Parliament with little opposition, but Australia did not finally become a member of the International Monetary Fund or Bank until the signing of the articles of membership on August 5.

almost as soon as they had begun. The Prime Minister was voicing the reaction of most Australians when he said in the House on May 29: "I must confess my complete astonishment that the country that originated and preached the proposals under consideration at Geneva should, at the time attempts were being made to negotiate an agreement, precipitate a proposal that to my mind is internationally provocative." Earlier he had explained that "we regard wool as very important. It is our most important exportable primary commodity and in our view it is essential that there should be a freer use of wool throughout the world."

On June 26 President Truman vetoed the proposed wool legislation, but the Australian Government and its representatives in Geneva indicated clearly that they would be satisfied with nothing less than a 25 per cent reduction in the existing United States tariff. It was not until the middle of August that the Americans signified their willingness to make such an offer. This enabled the Australian-American trade negotiations to be resumed. On August 21 Mr. Dedman left Geneva and on his arrival in Australia he expressed himself as "confident about their ultimate success, although even those actually engaged in the negotiations cannot clearly see their final result". He also stated that the Government attached importance to a number of provisions concerning full employment and economic development that the Australian delegation had succeeded in having inserted in the Trade Charter.

Banking

THE present inflationary trend in the United States and the possibility of its sudden reversal has for some time been a matter of major concern to the Commonwealth Government. Indeed their anxiety to ensure effective control over internal credit policy in the event of a world economic collapse has now been adduced as a reason for the nationalization of banking.

Australia has had a nationally owned bank ever since the establishment of the Commonwealth Bank in 1911. The Commonwealth Bank has conducted the banking business of the Commonwealth Government since its foundation, and it has enjoyed the sole right of note issue since 1924, but its development as a central bank has been retarded because it has not always enjoyed the full confidence of the trading banks, which correspond to the London "clearing banks". Moreover, it maintains a large trading department of its own, as well as a savings-bank department and a mortgage department. Its position is thus very different from that of the Bank of England.

During the war the position of the Commonwealth Bank was greatly strengthened by National Security Regulations, which required the trading banks to deposit with it their "surplus investible funds", defined as the increase in their total assets since 1939. In this way their opportunities of earning higher profits were strictly limited, since they were precluded from increasing their advances without correspondingly reducing their holdings of Government securities, and vice versa. This system was perpetuated under the 1945 banking legislation, of which some account was given in

a previous issue of THE ROUND TABLE.* At present these "special deposits" with the Commonwealth Bank amount to about 40 per cent of the total assets of the trading banks, and they carry a nominal rate of interest of $\frac{1}{2}$ per cent per annum. The Commonwealth Bank's power to retain or release these deposits provides it with a powerful instrument of control over the lending policy of the trading banks.

Under the Constitution the Commonwealth Government is specifically empowered to make laws with respect to "banking, other than state banking", and no attempt to challenge the validity of any of the provisions of the 1945 Banking Act was made either by the banks or by anyone else until Mr. Chifley, in his capacity as Treasurer, announced last May that section 48 of the Act would be brought into operation on August 1. This section prohibited the trading banks from conducting any banking business "for a State or for any authority of a State including a local government authority". Many authorities already did bank with the Commonwealth Bank, but those that did not included some important bodies like the Melbourne City Council. When that Council's request for exemption from the proposed order was refused it issued a writ in the High Court challenging the validity of section 48 of the 1945 Act under which the Government proposed to act. The writ also challenged the sections of the Act which perpetuated the "special deposits" system, but the challenge to these sections was not proceeded with. The action was heard on July 15 and 16, but judgment had not been delivered when, on August 1, the Treasurer gazetted an order requiring the trading banks to cease their business with 190 named municipalities. The Melbourne City Council was not included in the list, but the Court issued an injunction restraining the Commonwealth from further action until its judgment had been delivered. Eventually on August 13 the High Court by a majority of 5 to 1 found that section 48 of the 1945 Act was invalid on the ground that the Federal Parliament had no power to make laws discriminating against, or imposing special burdens on, States and their instrumentalities in respect of their governmental functions.†

The Government's reaction was immediate and drastic. On Saturday, August 16, the Prime Minister announced that the Cabinet had authorized the Attorney General and himself "to prepare legislation for submission to the Federal Parliamentary Labour Party for the nationalization of banking, other than State banks, with proper protection for shareholders, depositors, borrowers and the staffs of private banks". This announcement provoked a storm of indignant protest, which shows no sign yet of abating, from the Opposition, the press and the whole business community.

There are nine privately owned trading banks in Australia, of which four

* No. 139, June 1945, pp. 271-2.

† Some of the dicta go further and suggest that even some non-discriminatory Commonwealth laws might be held inapplicable to States and their instrumentalities. The decision is of great constitutional importance, since it revives in a modified form the doctrine of *implied* restrictions on Commonwealth and State powers, based on the federal structure of the Constitution, which was followed by the High Court until 1920 and then overruled in the *Engineers' Case*. The new doctrine, like the old, is based largely on decisions of the U.S. Supreme Court. This case is reported in 1947 *Argus Law Reports*, p. 377.

operate also in New Zealand and three have their head offices in London.* The parties most directly affected by the Government's proposals are their shareholders and employees. The shareholders number over 70,000, but nearly half of these are domiciled in New Zealand or Great Britain. The paid-up capital of the banks amounts to £40 million, but its market value is over £70 million, and Mr. Chifley announced on August 20 that the Commonwealth Bank would maintain the value of bank shares by purchasing all shares which holders desired to sell at the price on the stock exchange quoted on August 15. The number of trading-bank employees is over 20,000, and they do not appear to welcome the Government's proposals, particularly after a ministerial statement that nationalization would permit a saving of 5,000 personnel. On September 11 the Prime Minister found it necessary to renew his assurance that the proposed changes would not act to the detriment of bank employees.

On September 16, the day before Parliament reassembled, Mr. Chifley submitted the nationalization proposal to a meeting of the Parliamentary Labour party and obtained their unanimous approval. He then made a public statement giving for the first time his Government's reasons for their action. They were convinced of the necessity for complete control over banking, particularly in view of the unstable economic conditions that still prevailed overseas. It was on the basis of this conviction that they had framed the banking legislation of 1945, and their policy had subsequently been endorsed by the electorate. However, the success of the Melbourne City Council in challenging section 48 of the Act had forced them to the conclusion that further challenges might be made. In particular they were alarmed at the threat that the vital sections which perpetuated the "special deposits" system might also be successfully challenged. It was to avert this danger that they had decided upon nationalization.

When Parliament met, the Opposition immediately tabled a censure motion condemning the proposed legislation on the ground that the Government had no mandate from the people and urging that the question be submitted to a general election or a referendum. The Government's majority enabled it to apply the closure and defeat the motion. The campaign against the legislation, however, still continues. Protest meetings have been organized and petitions submitted to Parliament and the Governor General. In Victoria, the Opposition has used its majority in the Legislative Council to force a State election by refusing supply to the State Labour Government. The case for and against bank nationalization, and political developments connected with it, will be given at length in the next ROUND TABLE article from Australia.

Wages and Taxes

ONE obvious political advantage which the Government may hope to derive from the nationalization of banking is that it may serve to quiet its own left wing and the more radical elements in the trade unions. The

* Ordinary banking business is also conducted by some State banks, by the branches of some overseas banks and, of course, by the general banking division of the Commonwealth Bank.

socialization of industry has always been one of the planks of the Labour platform, but virtually the only industries with respect to which the Constitution empowers the Commonwealth Government "to make laws" are banking and insurance. There has been some speculation whether nationalization of the latter will follow that of the former, but the Commonwealth clearly has no power to embark on a nationalization programme comparable to that of the British Government. Moreover, three of the four State Labour governments are equally powerless because they lack effective majorities in their Upper Houses.* In December 1946, for example, the Victorian Government's Bill to nationalize the Melbourne gas companies was defeated in the Legislative Council.

In recent months trade-union pressure on the Government has relaxed a little, following its various amendments of the wage-pegging regulations, the new Arbitration Act, and the not unfavourable decisions of the Arbitration Court in respect of penalty rates and margins. On September 8 the Arbitration Court finally announced its judgment in the Forty Hours case after a hearing lasting for twenty-two months.† In a sense the issue had been prejudged by the Court's declaration on October 30, 1946, that they approved in principle of a 40-hour week, and by the action of the N.S.W. Government in introducing a 40-hour week in that State as from July 1, 1947. The Court, however, has now decided that it will introduce into all its awards a standard week of 40 hours instead of the existing 44 hours as from January 1, 1948.‡

The Court recognized that its decision, coming on top of increases in week-end rates and in margins for skill as well as in the basic wage, would create financial difficulties for various State undertakings, and particularly for the State railways. This became a major issue at the Premiers' Conference, which met on August 19, and at the Loan Council which followed. Under the State Grants (Tax Reimbursement) Act of 1946, the Commonwealth undertook to pay the States £40 million in 1946-47 by way of compensation for their exclusion from the field of income taxation. The Premiers, however, now asked the Commonwealth for additional grants of £25 million, principally in order to cover their railway deficits. They were given £5 million, and were left with no alternative but to raise their railway fares.

It is possible that the Commonwealth, as well as the States, will find itself in financial difficulties before the end of the present fiscal year, since the costs of administration are likely to rise on account of increased wages and shorter hours, while customs revenue is likely to fall on account of import cuts. For the moment, however, the outlook is buoyant. On March 25 it was announced that reduced rates of income-tax and social-services contribution would operate from July 1. The Commonwealth budget introduced on

* See THE ROUND TABLE, No. 148, September 1947, pp. 399-401.

† See *ibid.*, No. 143, June 1946, p. 280; No. 145, December 1946, p. 88; No. 146, March 1947, p. 191.

‡ In reaching this decision the Court was obviously impressed—perhaps too much impressed—by expert evidence that the loss of production would not exceed 5 or 6 per cent, with a corresponding overall rise of 4 per cent in costs and prices, and that the present period of prosperity in the primary industries provided an opportunity, the like of which might not recur, for reducing the working week.

September 19 provided for further reductions in sales tax, the abolition of war-time company tax and the suspension of the gold tax. Both the former concessions were obviously intended to offset in some measure the rise in prices and costs, while the latter was designed to ease the dollar crisis by stimulating the production of gold. For the first time in years Commonwealth expenditure is expected to be less than £400 million in the coming year. Borrowing by the States and local authorities for public works and housing is expected to amount to £83 million, but the estimated "gap" in Commonwealth finances has been reduced to £30 million, and much capital expenditure will apparently be charged to revenue.

The Canberra Conference

THE Canberra conference of British Commonwealth countries held from August 26 to September 2 is a landmark in the development of Commonwealth relations. It was the first major Commonwealth conference on a broad problem of foreign policy to be held outside the United Kingdom, the first Commonwealth conference to be held in Australia, and the first Commonwealth conference to be attended by the new Dominions of India, Pakistan and Burma. It was a very happy conference, which demonstrated fully the continuing ability of the nations of the British Commonwealth to achieve unity in diversity.

Australia,

October 14, 1947.

Postscript, October 17.

The Bank Nationalization Bill, introduced in the Federal Parliament on October 15, authorizes the Commonwealth Bank to acquire by treaty or compulsion either the shares in banking corporations or the assets of those corporations; the former alternative is available only in the case of banks incorporated in Australia. Compensation is to be assessed by a special Claims Tribunal. Employees of the banks are given a statutory right to employment in the Commonwealth Bank on the same terms and conditions as they enjoy at present, with superannuation schemes similarly guaranteed. Thereafter, only the Commonwealth Bank and State Banks may carry on the business of banking. An attempt has been made to give a taxation advantage to banks and shareholders which voluntarily negotiate sales to the Commonwealth Bank over those dealt with by compulsory acquisition, but at this writing the effect of the provision is obscure. The Commonwealth Bank is to finance the transaction from its own resources.

SOUTH AFRICA

GENERAL ELECTION PROSPECTS

ALTHOUGH South Africa is probably still a year away from the general election, there is a pre-election tenseness in the political atmosphere as the parties manoeuvre for position. South Africans of all political opinions are agreed that the coming struggle is of first importance, and that its outcome may well determine the course of South African history for a generation. To the Nationalists in particular it presents a challenge which Dr. Malan and his colleagues will spare no effort to meet.

On paper the position of General Smuts's United Party seems so strong as to be almost impregnable. At the moment the party has 88 seats in a House of 153, the largest opposition party being the Nationalists with 47. There will have to be a really substantial turnover of seats even to place the United party in a minority position. For the Nationalists to obtain a clear majority they would have to win something like 30 additional seats—a gigantic task in a country where political loyalties run deep. At the last general election the United Party held some 60 seats either in unopposed returns or with majorities of more than 2,000 in electorates of some 8,000. The Delimitation Commission will create a few more urban seats at the expense of rural representation, another factor in General Smuts's favour. Dr. Malan has unquestionably been gaining ground in the country areas and General Smuts to some extent losing ground in the towns. But even so, a change of Government next year will mean that there will have been a change in political feeling and loyalties unexampled in South African politics.

At the same time, strange things do happen in South African politics, and with the example of Mr. Churchill's defeat before them the United Party leaders are taking the coming struggle very seriously indeed. The United Party will go to the country on the strength of its record in general and its war record in particular, and will ask the electorate to endorse the bold and imaginative peace-time policies which this Government is putting or has put into effect. These include a highly successful demobilization scheme; a vigorous scheme of immigration; an attempt to tackle the great problem of soil conservation; and an attempt to bring the Natives more fully into the South African community by widening the powers of the Natives' Representative Council, thus giving Natives some measure of democratic self-government. The United Party in Parliament is a well-disciplined team and is backed by an efficient organization.

The Nationalists are seeing their real hope in the natural discontents arising from post-war troubles. There have been short-comings in administration, there is still grumbling about such controls as remain in South Africa, and, with an eye on the upheaval in Britain, the Nationalists hope for wide support, not because they are Nationalists, but because a Nationalist Government will be a change.

Of the wider political issues, the Nationalists have already made it clear that they will seize on the "black menace". This was a cry which brought them to victory in 1929; and there are still reserves of prejudice and fear which the Nationalists can exploit. The "black menace" is a wide term which embraces the Coloured people, the Indians and, to a certain extent, even the Jews.

But, unlike the United Party, the Nationalists are not altogether a happy team. The schism when General Hertzog and Mr. Havenga broke with Dr. Malan during the war went deep. For reasons of principle and personality there has been a cleavage almost as deep between Dr. Malan's Nationalists and the Ossewa Brandwag, the New Order and a few minor organizations who, during the war, also committed themselves to totalitarianism. The gulf between Dr. Malan and Mr. Havenga's Afrikaner party has been bridged but the structure is not very sound. The gulf between Dr. Malan and Ossewa Brandwag has not been bridged at all. The Ossewa Brandwagters, however, are using the Havenga bridge to get into contact with the Nationalist party and are apparently doing so in such numbers that the Nationalists are beginning to wonder whether Mr. Havenga's support was not too expensively bought if it means that the Nationalist party is to be white-anted. But the temptation must be resisted to make too much of the internal difficulties of the Nationalists and their allies. The Nationalists, Pirowites, Brandwagters and the rest have a powerful bond in their dislike of the present Government, and the probabilities are that on the day they will be found to be substantially united.

The Dominion Party has ceased to play any part in affairs; even its name has almost ceased to have any constitutional meaning, and the chances are that the party will not return more than one solitary member to the next Parliament.

The Labour Party is a much more important factor and some observers believe that it is a factor which will determine the result. Just before the death of the veteran Mr. Madeley the party split into right-wing and left-wing components. The right wing is strongly Nationalistic in outlook; and whatever happens, and for what it is worth, it will undoubtedly side with the Nationalists. The left wing, which has now become the "Labour Party", is led by Mr. John Christie, a capable, cautious and able leader, though not a vigorous personality as Mr. Madeley was. Mr. Christie and his lieutenants are poles asunder from the Nationalists, and there is not very much possibility of an open working arrangement between Labour and Nationalism. The key to the general election is on the Rand, which will have about 35 seats, and it is here that the Labour Party has a decided influence. It is unlikely that the Labour Party on its own can achieve much, but there is little doubt that in a number of constituencies it holds the balance of power securely enough to lose the election for the party it does not support. If 10 or 15 Rand seats were thus endangered for the United Party, and with that party's weakness in the Cape, Free State and Transvaal rural areas, it is conceivable that General Smuts might be forced into a coalition or to form a minority Government. Earlier in the year the Rand section of the United Party seemed

to be in favour of fighting it out with the Labour Party. More cautious counsels have prevailed, and there is now some possibility that a loose electoral arrangement will be made. Evidence for this is to be found in the manoeuvring which is preceding two by-elections to be held shortly on the Rand. The Benoni seat of the late Mr. Madeley could probably be won by the United Party against the Labour Party, but the Labour Party candidate would have a fair chance of succeeding with Nationalist help. On the other hand, the United Party could win the other by-election at Langlaagte against the Nationalists, but Labour support would put the Nationalists in. No formal agreement has been come to, but the United Party is not putting up a candidate at Benoni and the Labour Party is not putting up a candidate at Langlaagte.

These are straws in the wind which indicate that next year there will be substantial co-operation between the more liberal political forces against the Nationalists and their allies.

The Union's Happy Position

THE prosperity enjoyed in the Union in a world of financial chaos is well illustrated by figures supplied by Dr. de Kock, Governor of the Reserve Bank, in his annual report to stock holders. Since the end of the war imports, free from the restrictions imposed in less fortunate countries, have taken place on an unprecedented scale, thanks to the output of gold which makes dollars and sterling readily available. The trade figures for 1946 show imports of over £210 million as against £112 million in 1945, and exports (other than gold) of £97 million compared with £77 million. There was thus a net increase of approximately £78 million in the margin of imports over exports. The total sales of foreign exchange by the South African banks reached the stupendous figure of £366 million in the year ending March 31, 1947, compared with an annual average of £170 million for the years 1943-45. Sterling accounted for £252 million and U.S. and Canadian dollars for £109 million. Dr. de Kock considers that the net inflow of capital is much less than is generally supposed. He puts it at not more than £20 million for the period mentioned. Allowing for this, the net result is a reduction of more than £84 million in our gold and exchange reserves. But this is lightly borne. "Our gold and exchange holdings", he said, "will continue to be more than adequate for all the purposes of external and internal reserves, and our currency will remain one of the soundest currencies in the world."

During the financial year the Bank purchased gold to the amount of £97,986,000 at the fixed price of 172s. per fine ounce, while the total gold sales amounted to £149,759,000, of which £86 million went to the Bank of England, under the agreement which provides for a net minimum of £70 million per annum, and £54,934,000 to the United States. It is frequently complained that a much higher price could be obtained, for the benefit of the country, by selling in the free or black markets of the world. Dr. de Kock's reply is conclusive. In the first place, these free markets are relatively narrow and could not supply dollars or sterling in appreciable

amounts, and secondly, the monetary position of gold, once more safeguarded under the Bretton Woods agreement, would be undermined by sales of gold far above the monetary parity. "Our primary interest as the principal gold-producing country lies in helping to maintain the monetary position of gold."

Gold-mining in Difficulties

PARADOXICAL as it may seem, the gold-mining industry itself—the basis of the prosperity pyramid—finds itself in a difficult position. While its product is sold at a fixed price, costs of production rise, as inflation takes its course, and profits go steadily down. Since 1926–32 the price of gold has more than doubled from 84*s.* 11*d.* to 172*s.*, but working costs have gone up still more—from 58*s.* 10*d.* per ounce to 127*s.* 4*d.* per ounce and are still rising. This accounts for the drop in the Stock Exchange price both of dividend-payers and of the more speculative shares of the Orange Free State gold-field. As a consequence a demand has sprung up for an increase in the price of gold. A number of wishful thinkers actually prophesy that this must come as a means of helping Britain out of her difficulties. The answer is, of course, that an increase in the price of gold simply means further inflation and another substantial rise in costs, which would soon offset the initial advantage. Even if this were not so, an increased price is out of the question because it can only be obtained by agreement through the International Monetary Fund and cannot be effected by South Africa, even with the assistance of Great Britain. There are only two ways of helping the industry. One is a further reduction of taxation, which will no doubt be considered in the next budget: the other a reduction of costs which can reasonably be expected when the post-war boom has run its course. The gold-mining industry is a powerful stabilizing influence. In times of prosperity it suffers. In depression its profits go up and its capacity for employment increases.

The Gold Loan

THE gold loan agreement announced on October 10 after two months of negotiation is a definite improvement upon the original proposal outlined to the press by Mr. Strauss, Minister of Agriculture, on August 18. At that time the idea was believed to be to advance £60 million to be expended entirely on South African goods, mainly fruit and boots and shoes. It was pretty obvious that this plan involved the maximum of aid to South African exporting industries and the minimum of aid to Britain, since a large proportion of the material supplied would fall in the non-essential class. At any rate the intervening discussions have produced a loan of £80 million in gold, of which a maximum of £36 million is to be expended on South African products, leaving £44 million as a string-free contribution to the sterling pool. Some criticism has been directed to the limitation of the loan to three years and the charge of $\frac{1}{2}$ per cent interest. These conditions are of trifling value and might well have been dispensed with.

Although the London *Financial Times* hailed the loan as a "magnanimous gesture", and other papers followed suit, General Smuts himself took no

heroic view in his broadcast address. "South Africa", he said, "has to-day a very substantial gold reserve, a large part of which she will not need for her own purposes for some time and which is, therefore, at present lying idle and available for reconstruction." This temporarily useless gold will now serve the double purpose of saving our fruit exporters from ruin and contributing to world recovery.

A Reduction of Dollar Imports

IT was noticeable that in his address General Smuts made no reference to the question of reductions in hard-currency expenditure—the principal object of the Commonwealth talks which ended on October 7. Some Governments had already taken action in this respect, notably Australia and Southern Rhodesia. The Union is in a unique position in that the whole of its net requirement of U.S.A. dollars for trade or other purposes has been met since August 1946 from the proceeds of gold sales in New York without drawing upon the sterling pool. The gold loan is, therefore, in our case the natural substitute for a reduction of dollar expenditure. Nevertheless, it is widely felt that the Union's contribution might well be increased by cutting down imports, especially of luxuries, from America, which have risen to extravagant heights since the war.

One other point deserves mention. Under the agreement, if the Union gold reserve falls below £100 million, the Union Government may recall in sterling so much of the loan as is required to make it up to that figure. This point may be reached in a few months. On October 3 the reserve stood at £198 million. The deduction of £80 million reduces this figure to £118 million, and if the recent drainage is allowed to continue, £18 million will not last very long.

The Opposition has made up its mind not to oppose the loan. Dr. Malan said at Clanwilliam on October 9 that in our own interests we must retain our market in Britain. Consequently "the Nationalist Party will support the loan in so far as it will further the interests of South Africa and will not harm our economic structure".

Union of South Africa,
October 1947.

NEW ZEALAND

THE DOMINION AND THE DOLLAR CRISIS

THE decision of the British Government to suspend convertibility of sterling owing to scarcity of dollars roused New Zealand into immediate action to devise measures whereby all possible assistance could be given to Britain during this period of severe crisis. Apart from deeply rooted sentiments of affection, based on kinship and close co-operation in times of peace and war, there is a keen appreciation of the fact that the prosperity and high standards of living in this Dominion have been built up on the basis of the expanding and assured market that Britain has provided for our primary produce, and that our future prosperity and progress are dependent on Britain's successful emergence from present economic difficulties.

In response to urgent requests from organizations and individuals all over the country, the Prime Minister quickly called a National Aid to Britain Conference, probably the most comprehensive non-political and co-operative conference ever held in this country. Delegates representative of farming, manufacturing, exporting, importing, shipping, banking, newspaper and other interests as well as of all the principal trade unions met with the one object in view—to formulate and put into effective operation workable plans to ensure a maximum contribution of help from New Zealand.

There was unanimous agreement that it was essential to eliminate avoidable delays in unloading and loading cargo at ports so as to ensure a quicker turn-round of overseas shipping, to increase, as rapidly as possible, the production of butter, cheese, meat and animal fats for export to Britain, to increase wheat acreage and coal output so as to reduce New Zealand's requirements of imported wheat and coal, to cut down to the utmost all imports and other transactions that involve hard-currency expenditure, to avoid the importation from Britain of those classes of goods which are scarce and can be sold to hard-currency countries, and to postpone imports that would reduce materially New Zealand's present sterling balances. Practical proposals for achieving these objectives were embodied in recommendations to the Government, and a small, well-chosen national committee of representatives of farmers, employers and trade unions was appointed to organize and publicize the campaign with the assistance of subsidiary committees throughout the country.

To achieve the quicker turn-round of ships it is necessary not only to avoid any delays due to waterfront disputes but also to co-ordinate more effectively the road and rail facilities upon which waterfront work is dependent. Local committees of the employers, trade unions and State departments concerned are being organized to speed up transport operation.

As practically the whole of New Zealand's exportable dairy produce and meat is already being sent to Britain, any increase in supplies must come from greater production. Steps are being taken to attract labour to farms by

giving a high priority to house construction in rural districts and by raising the wages of farm workers. The good work of the British Phosphate Commission in rapidly rehabilitating Nauru and Ocean Islands after recovery from Japanese occupation has made available for New Zealand greatly increased supplies of phosphatic rock, and arrangements are being made to accelerate the local manufacture and delivery of superphosphate to aid farm production this season. Rationing of butter and meat is to continue and encouragement is to be given to the already widespread practice of the voluntary surrender of butter and meat coupons to make more food available for export.

To limit the demand for hard currencies heavier restrictions are being imposed on the issue of import licences, travel permits and foreign exchange remittances generally, the newspaper proprietors have voluntarily made a large reduction in their requirements of imported newsprint, and the necessity of every programme of capital expenditure involving imports is being reconsidered.

As about 80 per cent of the exports from New Zealand normally go to the United Kingdom, the pattern of New Zealand's imports was established on the multilateral trade facilities provided by the traditional free convertibility of sterling. This was not materially changed by the adoption of import licensing and exchange control in 1938, for although British goods continued to receive preference, there were sound economic reasons for using part of the sterling proceeds of our exports to pay for imports from many countries including those from America. The war inevitably brought some changes in this pattern of external trade. Despite the fact that the prices of New Zealand's exports did not rise so much as those of imports, the non-availability of many classes of imports caused an accumulation of foreign exchange so that the net overseas assets of the New Zealand banking system rose from £9 million at the outbreak of war in 1939 to £102 million in August 1947. Almost the whole of this amount represents sterling balances in London, the expansion of which coincided with a growing need in New Zealand for imports to replenish capital equipment, to restore commodity stocks and to meet large arrears of demand for consumer goods.

The growth of these sterling balances resulted in a corresponding increase in the amount of money in circulation in New Zealand in the form of coin, notes and demand deposits at the Reserve Bank and the trading banks, a surplus of spending power in relation to goods, and an upward pressure on prices. It was expected that with the post-war rehabilitation of overseas countries imports would again be readily available and the inflationary tendency corrected.

To some extent the need for goods was met by new local manufacturing industries and the expansion of old ones but, nevertheless, the restoration of conditions that will make imports available from all countries, non-sterling as well as sterling, is a matter of major importance to New Zealand's economy.

In the meantime there is a genuine and whole-hearted determination throughout the country to co-operate fully with the rest of the British Commonwealth in taking whatever measures are required to meet the present crisis. This involves for New Zealand a mobilization of economic resources,

an all-round improvement in productive efficiency and in employer-employee relations, and the adoption of financial and monetary policies that will maintain a satisfactory relationship between public expenditure and taxable capacity and provide effective control over credit and currency. To the extent that these conditions are realized the present crisis will have the net effect of promoting rather than retarding the economic progress of the Dominion.

Post-war Finance

A NOTABLE feature of the 1947 budget, presented to Parliament late in August, is the persistence of a very high level of public expenditure and, consequently, of taxation. For the last complete financial year before the war the expenditure of the Consolidated Fund was £35.8 million. In addition to this there was an expenditure of £6.5 million by the Employment Promotion Fund, the precursor of the present Social Security Fund. Taxation for that year totalled £37.8 million or £23 per head of population.

For the year ended March 31, 1947, the combined expenditure of the Consolidated Fund and the Social Security Fund, excluding transfers from one fund to the other and to the War Expenses Account, was £122.5 million, an increase of £80.2 million or 190 per cent over the comparable pre-war expenditure.

Total taxation for 1946-47 was £113 million or £66 per head and the same amount is estimated for 1947-48. The total expenditure of the Consolidated Fund for 1946-47 was £103.7 million, including a transfer of £18 million to the Social Security Fund. Consolidated Fund revenue from taxation was £90.7 million and from other sources £17.6 million, the year's surplus of revenue over expenditure being £4.6 million. Social Security Fund expenditure was £36.8 million, financed by Social Security taxation of £22.5 million and the £18 million grant from the Consolidated Fund. The year's expenditure of the War Expenses Account totalled £47.7 million, distributed as follows: Navy £4 million, Army £10.5 million, Air £2.6 million, Gift to British Government £12.5 million, UNRRA £3.6 million, Other Items £14.5 million.

Government borrowings for the year totalled £26.6 million, and were used for: National Development Works £15.6 million, War Expenses £8 million, and purchase of Bank of New Zealand shares £3 million. As debt redemptions amounted to £16.4 million, the net result for the year was an increase of £10.4 million in the public debt domiciled in New Zealand, with no change in the amount of the external debt.

Consolidated Fund expenditure for the current year, 1947-48, is estimated at £108.9 million and revenue at £89.7 million from taxation and £19.2 million from other sources. The estimate for Social Security expenditure is £40 million, to be covered by Social Security taxation of £23.7 million and a transfer of £16 million from the Consolidated Fund.

Expenditure from the War Expenses Account is estimated at £13.6 million to provide £5.9 million for the armed services, including the New Zealand forces in Japan, and £7.7 million for the rehabilitation of ex-servicemen.

Finance for this will be provided by the use of the 1946-47 surplus of £4.6 million from the Consolidated Fund, £5.8 million from the disposal of war assets and £3.2 million from other receipts. Loans for national development works are estimated at £26.9 million, to be obtained from a 3 per cent tap issue of long-term stock and the investment of departmental funds. These loans include provision for £2.5 million to be used for the nationalization of all privately owned coal-mines. No reduction is to be made in the present rates of taxation, except the removal of the 33½ per cent super-tax on unearned income in cases where total taxable income does not exceed £200.

Apart from an increase in defence expenditure and some additional departmental costs, due to larger staffs and higher wages, salaries and prices of materials and equipment, the present very high level of public expenditure and taxation as compared with pre-war years is almost entirely due to three main items, namely, debt service, social security and stabilization.

During the period 1939-47 the National Debt increased by £292 million. Though conversion operations have effected some reductions in interest-rates, the annual cost of debt service has risen by £13 million from £9 million in 1939 to £22 million in 1947. This increase in public debt and its service is wholly domestic, since various repayments of maturing overseas loans have reduced the external part of the debt from £196 million in 1939 to £151 million. Thus, from a national point of view, the increased cost of debt service is a redistribution of income within New Zealand from taxpayers to investors.

Social Security expenditure has risen from £12.3 million in 1939-40, its first year of operation, to £37 million in 1947, so that annual payments on this account alone now amount to more than the total of the pre-war Consolidated Fund. About one-third of the Social Security expenditure is for the recently introduced family allowances of 10 shillings a week for each child and about one-sixth for hospital, medical, maternity and pharmaceutical benefits, representing payment through the medium of the Social Security Fund of doctors' and chemists' bills which would otherwise be paid directly by the individuals concerned. These allowances and benefits do not involve any means test. Practically all the rest of the Fund's expenditure is applied to various pensions subject to means test.

Thus the fund operates in general to redistribute national income in favour of the less well-to-do part of the population to ensure to them provision for hospital, medical and maternity services and security from poverty that would otherwise occur as a result of ill health, physical disability, widowhood, old age or unemployment. These provisions appear to have general public approval irrespective of party politics, and recent increases ranging from 5 shillings to 10 shillings per week have been made in Social Security pensions and War pensions to meet rising costs of living.

As the whole of the revenue of the Social Security Fund is derived from taxation, about half from direct levies on wages, salaries and other income and the rest from the Consolidated Fund, its future depends largely on the maintenance of taxable capacity. The period since the inauguration of the fund has been one of full employment and progressive increase in aggregate

private income, which has risen from £186 million in 1938-39 to £325 million in 1945-46. It has therefore been possible to provide the additional revenue required for Social Security purposes and for other public expenditure.

In an economy such as that of New Zealand, basically dependent on a large *per caput* export trade in farm products the prices of which are liable to rapid and wide fluctuations in world markets, national income and taxable capacity are inevitably somewhat precarious. Their stabilization depends to a great extent on the measures adopted during years of high prices to build up reserves for lean years. The Social Security Fund is at present spending all its revenue and is not building up a reserve to meet the contingency of a serious fall in export prices and, consequently, in levels of employment, aggregate private income and taxable capacity, which would simultaneously reduce the Fund's revenue and increase the demand for its benefits.

Subsidies

THE other principal cause of the increase in Consolidated Fund expenditure, namely, cost of "stabilization", is an item which did not appear in the pre-war public accounts. It represents the cost to taxpayers of subsidies paid by the Government to keep down retail prices of various essential goods and services. The aggregate cost of these subsidies for 1946-47 was £14.5 million, of which about £3.5 million was drawn from the Dairy and Meat Industry stabilization accounts. Subsidies for 1947-48, after allowing for cancellations and reductions, are estimated to cost £13.5 million.

As the use of subsidies from public revenue tends to conceal the real cost of commodities it is generally admitted to be a temporary and rather undesirable expedient, which should be abandoned as soon as practicable.

Announcement of the cancellation or reduction of subsidies of an aggregate annual value of £12.4 million was made in the Budget Statement. An immediate and inevitable effect of the cessation of subsidy payments has been a rise in the prices of hitherto subsidized commodities. The price of 44/46 superphosphate, so important to farmers, has risen from £4. 2s. 6d. a ton to over £10; railway freights and fares have increased by 20 per cent and 15 per cent, respectively; shipping and other transport charges are in process of upward adjustment; meat, sugar, tea, bacon and ham have already become dearer; and it is expected that the prices of many other goods and services will increase.

It is not possible at this stage to estimate fully the effects that the withdrawal of subsidies will have on costs of production and on retail prices. One of its consequences is a demand from trade unions for further wage increases.

Wage-rates

THE Arbitration Court has recently provided for a general increase of approximately 10 shillings per week in the award rates of wages of those members of trade unions subject to its jurisdiction. This award was made after investigation and discussion of a case presented by the Federation of Labour for a general increase of £1 a week. The Court's decision took account of the fact that disparities and anomalies in the wage-rates of various

classes of workers required correction. Theoretically, the operations of the Stabilization Commission and the Arbitration Court should have ensured uniformity of changes in wage-rates; but this was not realized in practice.

Some unions, such as watersiders, coal-miners, seamen and railwaymen, had received wage increases from their own tribunals outside the jurisdiction of the Arbitration Court; some of the stronger unions subject to Arbitration Court awards had arranged for wage increases, with the approval of the Court, by private negotiation with their employers; and keen competition among employers for labour in short supply had in some cases resulted in the payment of wages higher than award rates.

The claim of the Federation of Labour was for a general increase, based on the ground that the cost of living had risen more than official price index numbers indicated, that the volume of production, the profitability of business and the economic prospects of the country were favourable, and that higher wages would be a greater incentive to efficient work. Just before the Court's decision on this question the Minister of Finance announced the Government's intention to withdraw subsidies, and asked the Court to take into account the probable consequent rise in the cost of living.

It is also probable that these increases will, in conjunction with the subsidy withdrawals, raise costs of production considerably and promote a wages-costs-prices spiral that may nullify the good effects that have resulted from the operation of the Government's stabilization policy since its adoption in 1942. The obvious solution of this problem lies in the raising of productive efficiency so as to obtain more production at lower unit cost.

State Control

CONTRARY to the hopeful expectation of traders and manufacturers who assumed that the price-fixing regulations would be repealed as part of the transition to a peace-time economy, price control is to be incorporated into the regular administrative machinery of the State. The Control of Prices Bill now under discussion in Parliament will give to the Price Tribunal, which at present operates under emergency regulations, the status of a permanent government department.

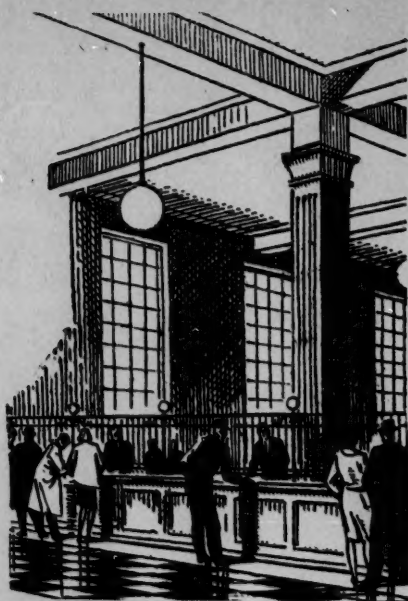
A further evidence of the Government's intention to extend the area of State control over business is contained in the Workers' Compensation Amendment Bill also before Parliament. This provides that all employers' liability insurance is to be placed with the State Accident Insurance Office, thus creating a state monopoly of workers' compensation insurance. Increases are to be made in the amounts payable as insurance benefits. Insurance cover is to be automatic and to include all employees. No compensation is to be paid to existing companies for loss of business. Strong opposition to the Bill has been already expressed by insurance companies, insurance workers' unions and business interests generally.

New Zealand,

October 1947.

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